



Revised

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Board Meeting: 8/10-11/2005
U. T. Medical Branch - Galveston

WEDNESDAY, AUGUST 10

BOARD MEETING

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- A. CONVENE IN OPEN SESSION 9:00 a.m.
Chairman Huffines
- B. CONSIDER AGENDA ITEMS
- a. **U. T. System Board of Regents: Approval of Chairman's recommended appointment of Regent Robert B. Rowling as Chairman of the Finance and Planning Committee (Regents' Rules and Regulations, Series 10402, related to appointment of Committee Chairmen)** 1
- b. **U. T. System Board of Regents: Resolution of appreciation to The Sealy & Smith Foundation**
- C. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071
- a. **U. T. Austin: Discussion of legal issues related to proposed The University of Texas Professional Education and Conference Center** 9:05 a.m.
Mr. Burgdorf
- b. **U. T. System and U. T. Dallas: Discussion and appropriate action regarding proposed settlement in *Carl B. Collins and Farzin Davanloo v. The Gillette Company*** *Mr. Burgdorf*
2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074
- U. T. System: Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Executive Vice Chancellors and Vice Chancellors), other officers reporting directly to the Board (Chancellor, Counsel and Secretary, and Director of Audits), and U. T. System employees and related personnel aspects of the operating budget for the year ending August 31, 2006** 9:30 a.m.
Chairman Huffines
Chancellor Yudof
3. Discussion related to the purchase, exchange, lease, or value of real property - Section 551.072

D. RECESS FOR GROUNDBREAKING FOR GALVESTON NATIONAL LABORATORY	12:00 p.m.
E. RECONVENE IN EXECUTIVE SESSION FOR DISCUSSION (Working Lunch)	12:30 p.m.
F. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND RECESS	1:25 p.m. <i>approximately</i>
COMMITTEE MEETINGS	1:30 – 5:45 p.m.
Health Affairs Committee	1:30 p.m.
Academic Affairs Committee	2:30 p.m.
Finance and Planning Committee	3:45 p.m.
Facilities Planning and Construction Committee	4:45 p.m.

THURSDAY, AUGUST 11

COMMITTEE MEETINGS

Audit, Compliance, and Management Review Committee

8:00 a.m. - 10:00 a.m.

8:00 a.m.

Student, Faculty, and Staff Campus Life Committee

9:00 a.m.

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2. U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 30201, Section 9.4 (Military Duty)	10:03 a.m. Action	4
3. U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 80201, Sections 2 and 3 (Disposal of U. T. System Property)	10:04 a.m. Action	5
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5. U. T. System: Approval of the nonpersonnel aspects of the operating budgets for the fiscal year ending August 31, 2006, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects	10:20 a.m. Action <i>Chancellor Yudof</i>	9
6. U. T. System Board of Regents: Report on Centralization of Operating Funds	10:35 a.m. Report/Discussion <i>Dr. Kelley</i>	11

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7. U. T. System Board of Regents: Approval of proposed Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO) and related actions	<i>10:45 a.m.</i> Action <i>Dr. Kelley</i> <i>Mr. Boldt</i>	12
8. U. T. System Board of Regents: Approval of revised Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO) and approval of distribution of reserves to investment accounts	<i>11:00 a.m.</i> Action <i>Dr. Kelley</i> <i>Mr. Boldt</i>	14
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11. U. T. System Board of Regents: Discussion of revised disclosure regarding restatement of investment performance against benchmarks	<i>11:35 a.m.</i> Discussion <i>Dr. Kelley</i>	18
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J. RECESS FOR MEETINGS OF THE STANDING COMMITTEES	<i>12:15 p.m.</i>	
K. RECONVENE AS COMMITTEE OF THE WHOLE AND RECESS TO EXECUTIVE SESSION PURSUANT TO <i>TEXAS GOVERNMENT CODE</i> , CHAPTER 551	<i>1:00 p.m.</i> <i>approximately</i>	
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071		
a. U. T. Austin: Discussion and appropriate action regarding legal issues related to Declaration of Trust with Texas Student Publications, Inc.	<i>1:00 p.m.</i> <i>Mr. Burgdorf</i>	

b. U. T. System: Discussion of legal issues related to Los Alamos National Laboratory

- 2. Discussion related to the purchase, exchange, lease, or value of real property - Section 551.072
- 3. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074
- L. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS *1:50 p.m.*
- M. ADJOURN *2:00 p.m.
approximately*

WEDNESDAY, AUGUST 10

- A. CONVENE IN OPEN SESSION
- B. CONSIDER AGENDA ITEM

U. T. System Board of Regents: Approval of Chairman's recommended appointment of Regent Robert B. Rowling as Chairman of the Finance and Planning Committee (Regents' Rules and Regulations, Series 10402, related to appointment of Committee Chairmen)

RECOMMENDATION

Chairman Huffines recommends the appointment of Regent Robert B. Rowling as Chairman of the Finance and Planning Committee pursuant to the Regents' *Rules and Regulations*, Series 10402, related to appointment of Committee Chairmen.

- C. RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE*, CHAPTER 551 (See Meeting of the Board Table of Contents Page i)
- D. RECESS FOR GROUNDBREAKING FOR GALVESTON NATIONAL LABORATORY
- E. RECONVENE IN EXECUTIVE SESSION FOR DISCUSSION (Working Lunch)
- F. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND RECESS

COMMITTEE MEETINGS (1:30 – 5:45 p.m.)

Health Affairs Committee (1:30 p.m.)

Academic Affairs Committee (2:30 p.m.)

Finance and Planning Committee (3:45 p.m.)

Facilities Planning and Construction Committee (4:45 p.m.)

THURSDAY, AUGUST 11

COMMITTEE MEETINGS (8:00 - 10:00 a.m.)

Audit, Compliance, and Management Review Committee (8:00 a.m.)

Student, Faculty, and Staff Campus Life Committee (9:00 a.m.)

G. RECONVENE MEETING OF THE BOARD IN OPEN SESSION

H. APPROVAL OF MINUTES

I. CONSIDER AGENDA ITEMS

1. **U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 10403, regarding public testimony during open meetings**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Counsel and Secretary to the Board and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 10403, Section 6 be amended as set forth in congressional style below to comply with Senate Bill 511 passed during the 79th Regular Texas Legislative Session concerning the issue of public testimony during open meetings:

2. Rule and Regulation

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Sec. 6 ~~Request to Appear Before the Board or a Committee~~ Provide Public Testimony on an Agenda Item. ~~Except upon invitation of the Board of Regents, the Chairman of the Board, the appropriate Committee Chairman, the Chancellor, or a designated Committee liaison, no person shall appear before the Board or any committee thereof unless that person files a written request explaining the purpose of such appearance with the Counsel and Secretary to the Board at least three days before the date of such appearance and unless the Chairman of the Board, the appropriate Committee Chairman, or at least three members of the Board approve the request. It is understood, however, that the president of an institution and/or the president or chair of the student, staff, or faculty governance organization(s) may appear without prior notice or request before the Board or any committee whenever the matter under consideration directly affects the institution represented by such person. Persons requesting to appear must identify the subject of their remarks, which must be directly related to a matter on the Agenda for consideration by the Board. Whenever time~~

~~and other circumstances permit, the person making the request shall first consult with the president, or his or her delegate, of such institution regarding the purpose of the appearance prior to the meeting of the Board or committee. Members of the public are allowed to present written and oral testimony, for a reasonable amount of time as determined by the Chairman of the Board, on any topic listed on the agenda for a Committee or Board meeting that is open to the public. Testimony on topics not listed on the agenda will not be allowed. Members of the public wishing to present testimony shall provide their name and the agenda topic they wish to address to the Counsel and Secretary to the Board at least 24 hours in advance of the meeting. Insofar as possible, any person who provides oral testimony appears before the Board shall provide a written statement of the substance of such person's testimony presentation to the Board, and such written statement shall be delivered to the Counsel and Secretary to the Board in sufficient time for copies to be distributed to the Regents prior to the meeting. Any person appearing before the Board or a committee shall be subject to restrictions on time, place, and manner as may be prescribed by the Chairman or a majority of the Board or by the Chairman or a majority of a committee. The Board shall consider the public testimony presented to the Board on an issue before making a decision on the issue. The Chairman or a majority of the Board may prescribe sanctions against any person exceeding established time, place, or manner limits or speaking on a topic not relevant to the agenda topic. Those sanctions may include the refusal to allow such person to speak again to the Board or committees of the Board for up to one year.~~

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BACKGROUND INFORMATION

Senate Bill 511 (which adds Section 51.355 to the *Texas Education Code*) requires the governing board of a university system to adopt a policy that allows the public to present, for a reasonable amount of time and for any item on the agenda, both written and oral testimony at a regular meeting of the board by October 1, 2005. Senate Bill 511 also requires that the governing board consider the public testimony before making a decision on the issue.

Current Regents' *Rules and Regulations* at Series 10403, Section 6 contain the procedures necessary for a person to appear before the Board of Regents. While the intent of the current procedures was to provide a method for individuals to present public testimony, the procedures contain certain provisions that are more restrictive than what is intended by Senate Bill 511. The proposed amendments will align the Regents' *Rules and Regulations* with Senate Bill 511.

2. **U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 30201, Section 9.4 (Military Duty)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Counsel and Secretary to the Board and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 30201, Section 9.4, regarding military duty, be amended as set forth below in congressional style:

2. Rule and Regulation

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Sec. 9 Military Duty. . .

9.4 In accordance with *Texas Government Code* Section 661.9041, the Chancellor or president of an institution shall grant sufficient emergency leave as differential pay to a state employee on unpaid military leave if the employee's military gross pay is less than the employee's state gross pay. The combination of emergency leave and military pay may not exceed the employee's actual state gross pay.

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BACKGROUND INFORMATION

The proposed amendment to the Regents' *Rules and Regulations*, Series 30201, Section 9.4 is needed to conform with a recent amendment to *Texas Government Code* Section 661.9041. That Section relates to the pay differential (emergency leave) that a state agency must pay to a state employee on unpaid military leave. Under prior law, state agencies used the military gross pay of an employee for purposes of calculating the pay differential, which was the employee's state gross pay minus military gross pay. Under the new legislation, combat zone pay, hardship pay, and family separation pay are excluded from military pay in arriving at the differential amount. Accordingly, the Regents' *Rules and Regulations* are proposed to be amended to delete reference to military "gross" pay.

3. **U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 80201, Sections 2 and 3 (Disposal of U. T. System Property)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Counsel and Secretary to the Board and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 80201, Sections 2 and 3, regarding disposal of U. T. System property, be amended as set forth below in congressional style:

2. Rule and Regulation

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Sec. 2 Transfer to Public School. If the chief business officer ~~shall~~ determines that the equipment is not needed for any department, that it is not practical ~~practicable~~ to store the equipment for possible future use, and that the equipment can be used for instructional purposes, it shall be made available to a public school, ~~or~~ school district, or an assistance organization designated by the school district, at a price or for other consideration agreeable to the U. T. System and the public school, ~~or~~ school district, or the assistance organization in accordance with *Texas Government Code* Section 2175.304(b) before disposing of the property in another manner. Preference must be given to a public school or school district or to an assistance organization designated by the school district before disposing of the property in another manner. If more than one public school, school district, or assistance organization seeks to acquire the same equipment on substantially the same terms, the preferences stated in *Texas Government Code* Section 2175.304(c) shall govern the disposition. The instructional equipment may be transferred to the public school or school district for such consideration, or for no consideration, as the chief business officer determines appropriate. Any surplus or salvage property not otherwise disposed of under this Section and having no resale value may be donated to an assistance organization, as defined by *Texas Government Code* Section 2175.001(1).

Sec. 3 Disposal of Information Technology Equipment. Surplus or salvage of information technology equipment, as defined by *Texas Government Code* Section 2054.003(3)(A), that is not transferred to a public school, school district, or an assistance organization designated by the school district as provided in Section 2 above or that is not disposed of under other law must be offered next and at no charge to a school district, an open-enrollment charter school, or the Texas Department of Criminal Justice in accordance with *Texas Government Code* Chapter 2175, Subchapter C.

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BACKGROUND INFORMATION

The proposed amendments to the Regents' *Rules and Regulations*, Series 80201, Sections 2 and 3 are needed to conform with a recent amendment to *Texas Government Code* Section 2175.304 authorizing an institution of higher education to donate to an assistance organization any surplus or salvage property having no resale value and not otherwise disposed of under that statute, which allows direct transfer of materials or equipment usable for instructional purposes to a public school, a school district, or an assistance organization designated by a school district.

4. **U. T. System: Adoption of the six-year Capital Improvement Program (CIP) for Fiscal Years 2006-2011, approval of Capital Budget for Fiscal Year 2006-2007, redesignation of previously approved projects in the CIP, reduction of previously appropriated funds for repair and rehabilitation projects deleted or decreased in scope; appropriation of additional funds for previously approved projects with increased total project costs; appropriation of funds for new repair and rehabilitation projects initiated in the Capital Budget; and approval of the use of Revenue Financing System parity debt for repair and rehabilitation projects initiated in the Capital Budget for which revenue financing system bonds are identified as a funding source, resolution regarding parity debt, make finding of fact, and authorize expenditure for Founders Renovation project at U. T. Dallas**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Executive Vice Chancellor for Business Affairs, that the U. T. System Board of Regents

- a. adopt the U. T. System Capital Improvement Program for Fiscal Years 2006-2011 as set forth in the Summary of Projects (Attachment 1 on Pages 8.1 – 8.8);
- b. approve the Capital Budget for Fiscal Years 2006-2007 as set forth in the Summary of Projects (Attachment 1 on Pages 8.1 – 8.8);
- c. approve the redesignation of projects previously approved in the CIP as set forth in Attachment 2 on Page 8.9;
- d. reduce previously appropriated funds in an aggregate amount of \$21,800,000 for repair and rehabilitation projects deleted or decreased in scope in the FY 2006-2007 Capital Budget as reflected in the Deleted or Reduced Appropriations column in Attachment 3 on Pages 8.10 – 8.12;
- e. appropriate additional funding with increased total project costs for previously approved repair and rehabilitation projects in an aggregate

amount of \$46,345,000 as reflected in the FY 2006-2007 Capital Budget as set forth in the Additional Appropriations column in Attachment 3 on Pages 8.10 – 8.12;

- f. appropriate funding in an aggregate amount of \$251,150,005 for new repair and rehabilitation projects initiated in the FY 2006-2007 Capital Budget as reflected in the Appropriations for Projects Initiated in the Capital Budget column in Attachment 3 on Pages 8.10 – 8.12;
- g. appropriate additional funding from Revenue Financing System Bond Proceeds for previously approved project in an aggregate amount of \$4,000,000 for the Center for Brain Health project at U. T. Dallas in Attachment 4 on Page 8.13;
- h. approve the use of \$119,900,000 Revenue Financing System Parity Debt for certain construction and repair and rehabilitation projects in the FY 2006-2007 Capital Budget for which Revenue Financing System Bond Proceeds have been identified as all or a portion of the funding for the U. T. System institutions as set forth in Attachment 4 on Page 8.13;
- i. make the "finding of fact" determinations regarding the ability to repay debt and satisfy financial obligations with respect to the issuance of \$119,900,000 of Parity Debt described in Attachment 4 pursuant to Section 5 of the Master Resolution as a condition to the issuance of additional Revenue Financing System Parity Debt; and
- j. appropriate funding and authorize expenditure of \$3,310,000 from Permanent University Fund Bond Proceeds for the Founders Renovation at U. T. Dallas.

BACKGROUND INFORMATION

The CIP is a six-year projection of major repair and rehabilitation and new construction projects to be implemented and funded from institutions and U. T. System-wide revenue sources. Projects included in the CIP correspond to the highest priority needs identified in the long-range strategic planning process and institutional capital renewal plans as determined by the Facilities Renewal Model presented to the Facilities Planning and Construction Committee of the U. T. System Board of Regents on July 1, 2002. Future projects listed in the CIP are for consideration when funding has been secured.

Adoption of the CIP authorizes U. T. System Administration and the institutional administration to expend up to 3% of the preliminary project cost to develop the formal Project Building Program document, select the Project Architect, and develop preliminary project plans. These funds will be appropriated by the institution initially but may be reimbursed from project funds after design development approval and appropriation of project funds by the U. T. System Board of Regents.

The Capital Budget is the first two years of the six-year CIP. Approval of the Capital Budget authorizes and appropriates funding amounts and sources for identified major repair and rehabilitation projects that are not architecturally or historically significant. Authorization of these projects and appropriation of these funds allow these projects to be presented to the Associate Vice Chancellor for Facilities Planning and Construction for design development plan approval and authorization for expenditure of funds and subsequent execution of the project by the administrative staff without returning to the U. T. System Board of Regents for further approvals. The U. T. System Board of Regents approves the design development plans for all major projects other than repair and rehabilitation projects that are not architecturally or historically significant.

The redesignation of projects in the CIP has been requested by the institutions to more accurately reflect the work to be accomplished.

The proposed CIP will be the subject of a presentation by Associate Vice Chancellor for Finance Philip Aldridge on August 11, 2005. (The PowerPoint presentation begins on Page 8.14 – 8.20.) The presentation will identify the economic impact of the proposed projects.

The University of Texas System
FY 2006-2011 Capital Improvement Program
Major Construction Projects Summary

Attachment 1

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
<u>Academic Institutions</u>		
<u>The University of Texas at Arlington</u>		
<i>Institutionally Managed</i>		
Clock and Bell Tower	\$ 1,500,000	1,154,662
Energy Performance Contract	15,000,000	9,944,445
Subtotal Inst Mgd	\$ 16,500,000	11,099,107
<i>OFPC Managed</i>		
Activities Building Renovation and Expansion - Phase 1	\$ 16,370,005	566,192
Chemistry and Physics Building	43,472,945	17,675,864
Subtotal OFPC Mgd	\$ 59,842,950	18,242,056
Subtotal U. T. Arlington	\$ 76,342,950	29,341,163
<u>The University of Texas at Austin</u>		
<i>Institutionally Managed</i>		
Painter Hall - Mechanical System Upgrades	\$ 4,000,000	3,680,000
Subtotal Inst Mgd	\$ 4,000,000	3,680,000
<i>OFPC Managed</i>		
Almetris Duren Residence Hall	\$ 50,000,000	41,689,189
Applied Research Lab Expansion - Phase II	2,500,000	2,036,539
Benedict/Mezes/Batts Renovation - Phase I and II	48,000,000	17,181,845
Biomedical Engineering Building	55,100,000	18,647,795
Child Development Center	3,605,000	1,337,012
College of Communication Building-New	32,000,000	198,388
Darrell K Royal - Texas Memorial Stadium Fire and Life Safety/Improvement Planning	10,000,000	9,101,903
Elementary Charter School Permanent Facility	4,500,000	3,074,772

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
Garrison Hall Renovations	\$ 10,400,000	1,539,309
Gregory Gymnasium Aquatics Complex	15,290,000	5,567,236
Hogg Auditorium Renovation	15,000,000	569,246
Imaging Research Center	5,500,000	3,304,825
Institute for Geophysics and Advanced Computing Center	20,444,000	18,207,012
Jack S. Blanton Museum of Art - Phase I and II	83,500,000	35,201,192
Jamail Texas Swim Center Renovation - Phase I and Phase II	5,300,000	993,328
LBJ Plaza Renovation/Lady Bird Johnson Center	30,000,000	4,863,141
Library Storage Facility	4,800,000	13,084
Marine Science Institute Wetlands Education Center	5,000,000	4,261,654
Nano Science and Technology Building	39,100,000	29,950,600
Nueces Garage	20,500,000	3,440,676
Performing Arts Center Infrastructure Upgrades - Phase I and II	14,700,000	1,585,915
Pharmacy Building Renovation - Phase I	250,000	7,312
Renovations to Disch-Falk Field	18,000,000	2,730,994
School of Nursing Addition	4,000,000	3,420,373
Speedway Mall North of 21st Street and East Mall/East Mall Fountain, Plaza	12,000,000	9,661,065
The University of Texas Professional Education and Conference Center	84,000,000	23,540,163
	Subtotal OFPC Mgd	242,124,568
	Subtotal U. T. Austin	245,804,568

The University of Texas at Dallas

Institutionally Managed

Waterview Science and Technology Center	\$ 2,950,000	1,943,772
	Subtotal Inst Mgd	1,943,772

OFPC Managed

Center for Brain Health	\$ 13,925,000	11,608,743
Founders Renovation	27,293,750	20,736,499
Natural Science and Engineering Research Building	85,000,000	62,518,116
	Subtotal OFPC Mgd	94,863,358

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
Subtotal U. T. Dallas	\$ 129,168,750	96,807,130

The University of Texas at El Paso

Institutionally Managed

Campus Energy Performance Project	\$ 4,700,000	3,235,913
Campus Police Relocation	1,700,000	1,321,629
Kelly Hall Renovation of 3 Floors - Phase 2	2,286,000	1,999,753
Renovation of Former Academic Services Building	900,000	802,623
Union West Renovations - 2nd Floor	1,000,000	910,719
Subtotal Inst Mgd	\$ 10,586,000	8,270,637

OFPC Managed

Biosciences Facility	\$ 30,500,000	15,930,068
Parking Garage	23,500,000	21,398,266
Subtotal OFPC Mgd	\$ 54,000,000	37,328,334
Subtotal U. T. El Paso	\$ 64,586,000	45,598,971

The University of Texas - Pan American

Institutionally Managed

Administrative Offices Renovation	\$ 5,657,000	2,151,312
Child Development Center	1,594,000	1,250,442
Subtotal Inst Mgd	\$ 7,251,000	3,401,754

OFPC Managed

Administration Annex	\$ 7,000,000	1,310,229
Animal Research Facility	5,000,000	3,289,474
Business Administration Addition and Renovation	6,000,000	732,509
Chill Water Extension	625,000	575,000
Multi-Function Classroom Building	5,000,000	1,915,361
New Chiller	1,200,000	1,104,000
Social and Behavioral Sciences Renovation	6,430,000	0
Student Health Clinic	1,300,000	192,887

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
Student Housing Phase II	\$ 12,500,000	345,109
Wellness and Recreation Sports Center	26,000,000	14,107,627
Subtotal OFPC Mgd	\$ 71,055,000	23,572,196
Subtotal U. T. Pan American	\$ 78,306,000	26,973,950
 <u>The University of Texas of the Permian Basin</u>		
<i>OFPC Managed</i>		
Mesa Building Improvements/Gymnasium Renovations, Phase I	\$ 9,350,000	5,339,657
Subtotal OFPC Mgd	\$ 9,350,000	5,339,657
Subtotal U. T. Permian Basin	\$ 9,350,000	5,339,657
 <u>The University of Texas at San Antonio</u>		
<i>Institutionally Managed</i>		
Campus Roadway and Parking Improvements	\$ 4,100,000	1,432,118
Recreation and Athletic Facilities	1,900,000	585,200
Subtotal Inst Mgd	\$ 6,000,000	2,017,318
<i>OFPC Managed</i>		
Downtown Campus Cladding Repairs	\$ 850,000	0
Laurel Village at UTSA	35,620,000	156,490
Monterey Building Renovations	2,700,000	1,369,880
Recreation and Wellness Facilities, Phase II	42,000,000	3,832,366
Thermal Energy Plant No. 2/Garage	25,900,000	21,833,000
University Center Expansion, Phase III	25,200,000	23,417,811
Subtotal OFPC Mgd	\$ 132,270,000	50,609,547
Subtotal U. T. San Antonio	\$ 138,270,000	52,626,865
 <u>The University of Texas at Tyler</u>		
<i>OFPC Managed</i>		
Student Resident Home II	\$ 1,900,000	1,030,630
University Center Renovation/Expansion (Phase I)	11,000,000	1,772,050

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
William R. "Bill" Ratliff Engineering and Science Complex	\$ 34,850,000	17,137,824
Subtotal OFPC Mgd	\$ 47,750,000	19,940,504
Subtotal U. T. Tyler	\$ 47,750,000	19,940,504

Total Academic Institutions	\$ 1,141,262,700	522,432,808
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Health Institutions

The University of Texas Southwestern Medical Center at Dallas

Institutionally Managed

Ambulatory Clinic Building and Parking Garage	\$ 62,400,000	49,695,911
Hazardous Waste Handling Facility	2,800,000	1,125,613
Subtotal Inst Mgd	\$ 65,200,000	50,821,524

OFPC Managed

Laboratory Research and Support Building	\$ 25,000,000	12,057,588
North Campus Phase 4	307,600,000	106,413,949
Subtotal OFPC Mgd	\$ 332,600,000	118,471,537
Subtotal U. T. S.M.C. Dallas	\$ 397,800,000	169,293,061

The University of Texas Medical Branch at Galveston

Institutionally Managed

Basic Science Renovation	\$ 6,000,000	2,445,825
Laboratory Buildout	4,130,000	1,498,150
Library Facilities Upgrade	7,900,000	4,332,251
Rebecca Sealy Hospital Renovation	9,850,000	404,264
TDCJ Hospital Cladding Restoration	6,560,000	41,073
Subtotal Inst Mgd	\$ 34,440,000	8,721,563

OFPC Managed

1108 Strand Renovation	\$ 9,800,000	3,994,846
Clinic Facility (League City)	30,000,000	2,530,388

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
Galveston National Laboratory	\$ 167,090,673	59,984,888
Jennie Sealy Hospital Replacement	250,000,000	19,563,954
Research Facilities Expansion	77,180,000	39,492,104
Student Housing	18,780,000	1,203,831
University Plaza Development	27,360,254	14,258,442
Subtotal OFPC Mgd	\$ 580,210,927	141,028,453
Subtotal U. T. M.B. Galveston	\$ 614,650,927	149,750,016

The University of Texas Health Science Center at Houston

Institutionally Managed

Expansion of School of Health Information Sciences	\$ 3,000,000	1,264,592
Repair of the Medical School Building, Phase I	60,000,000	21,278,644
Subtotal Inst Mgd	\$ 63,000,000	22,543,236

OFPC Managed

Campus Parking Garage, Phase I, South Campus	\$ 7,500,000	6,543,232
Fayez S. Sarofim Research Building	120,000,000	48,508,029
Medical School Building - Perimeter Berm	10,000,000	6,788,537
Mental Sciences Institute - Replacement Facility	22,500,000	17,114,584
Replacement Research Facility	80,530,000	70,977,629
Subtotal OFPC Mgd	\$ 240,530,000	149,932,011
Subtotal U. T. H.S.C. Houston	\$ 303,530,000	172,475,247

The University of Texas Health Science Center at San Antonio

OFPC Managed

Cancer Research Institute	\$ 18,000,000	10,686,575
Emergency , Fire and Safety Initiative, Phase I	9,000,000	7,030,800
Medical Arts Research Center (Ambulatory Clinic)	95,000,000	17,035,089
Teaching/Learning Lab - Laredo	12,700,000	8,176,201
Teaching/Learning Lab, RAHC Harlingen	25,500,000	21,077,308
Subtotal OFPC Mgd	\$ 160,200,000	64,005,973

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
Subtotal U. T. H.S.C. San Antonio	\$ 160,200,000	64,005,973

The University of Texas M. D. Anderson Cancer Center

Institutionally Managed

Administrative Support Building Phase I	\$ 60,000,000	9,237,931
Administrative Support Building Phase II	40,000,000	0
Alkek HVAC Redundancy	13,200,000	12,144,000
American Disabilities Act Upgrades	18,400,000	5,102,492
Backfill Phase III	91,600,000	44,140,591
Basic Science Research Building Two	185,000,000	377,551
Basic Science Research Building Two Parking Garage	24,000,000	0
Basic Science Research Building Two Utility Connections	2,500,000	2,210,484
Bates-Freeman Office Conversion	14,700,000	0
Braeswood Parking Garage	26,000,000	16,833,834
Brain Suite	2,800,000	2,010,465
Elevator Modernizations	3,000,000	1,860,465
Emergency Generator Plant	12,000,000	0
Energy Management Projects Phase II	15,500,000	5,055,000
Exterior Cladding Main Campus	10,000,000	1,483,746
Faculty Center Tower	145,000,000	89,026,677
FEMA 404 Projects	38,400,000	16,984,131
FEMA 406 Projects	12,700,000	1,907,865
FHB Maintenance and Renovation	6,700,000	3,675,695
HMB Demolition	10,000,000	19,305
Library Expansion	2,500,000	980,959
Lutheran Pavilion Patient Tower Refurbishment	27,000,000	9,594,059
Mid-Campus Central Parking Facility	24,000,000	2,415,000
Mid-Campus Infrastructure	16,600,000	15,157,039
MSI Building Demolition	3,000,000	102,278
New Patient Care Facilities and Parking - (Part A)	98,600,000	70,429
New Patient Care Facilities and Parking - (Part B)	201,400,000	0

	CIP Project Cost Total	FY 2006-2007 Proj. Exp. Total
Patient Care Life Safety Code Improvements	\$ 7,200,000	6,624,000
Redevelopment - Phase I	56,000,000	10,930,433
Research Lab Renovations	25,000,000	13,720,986
Roof Replacement Gimbel, Bates Freeman, Anderson Center, New Clark	4,000,000	1,695,570
Rotary House International Phase III	21,000,000	949,565
Smithville Facility Strategic Plan	30,300,000	4,687,135
South Campus Vivarium Facility	25,000,000	22,357,143
UT Research Park Building 3	55,000,000	24,080,032
UT Research Park Building 4	70,000,000	8,710,695
UT Research Park Garage 2	8,000,000	7,017,705
UT Research Park Garage 3	8,400,000	0
UT Research Park Infrastructure Improvements	20,000,000	14,333,333
UTRP Utilities and Central Maintenance Facilities	30,000,000	11,009,894

Subtotal Inst Mgd \$ 1,464,500,000 366,506,487

OFPC Managed

Bastrop Facility Strategic Plan	\$ 21,000,000	17,042,899
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Subtotal OFPC Mgd \$ 21,000,000 17,042,899

Subtotal U. T. M. D. A.C.C. \$ 1,485,500,000 383,549,386

The University of Texas Health Center at Tyler

OFPC Managed

Health Clinic	\$ 3,500,000	2,749,225
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Subtotal OFPC Mgd \$ 3,500,000 2,749,225

Subtotal U. T. H.C. Tyler \$ 3,500,000 2,749,225

Total Health Institutions	\$ 2,965,180,927	941,822,908
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Total Major Construction Projects	\$ 4,106,443,627	1,464,255,716
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**THE UNIVERSITY OF TEXAS SYSTEM
FY 2006-2011 Capital Improvement Program**

Attachment 2

PROJECTS REDESIGNATED IN THIS CIP

Institution	Previously Approved Project Name	Redesignated Project Name
<u>UT Austin</u>	Hotel and Conference Center Performing Arts Center Infrastructure Upgrades - Phase I and Performing Arts Center Infrastructure Upgrades Phase II combined Stadium Fire and Life Safety/Improvement Planning	The University of Texas Professional Education and Conference Center Performing Arts Center Infrastructure Upgrades - Phase I and II Darrell K Royal-Texas Memorial Stadium - Fire and Life Safety/Improvement Planning
<u>UT Dallas</u>	Founders/Founders Annex/Berkner Renovation	Founders Renovation Separated into two projects listed as Parking Garage project and Bookstore project
<u>UT El Paso</u>	Parking Garage and Bookstore	
<u>UT Pan American</u>	Health and Kinesiology Physiology/Recreation Center	Wellness and Recreation Sports Center
<u>UT San Antonio</u>	North/South Connector Road	Campus Roadway and Parking Improvements
<u>UTSWMCD</u>	Ambulatory Surgical Center	Ambulatory Clinic Building and Parking Garage
<u>UTMB</u>	Laboratory Buildout 4th Floor Building 021	Laboratory Buildout
<u>UTHSCH</u>	Campus Parking Garage, Phase I	Campus Parking Garage, Phase I, South Campus
<u>UTMDACC</u>	Faculty Center Two Faculty Center Two Parking Garage Redevelopment	Faculty Center Tower Faculty Center Tower Parking Garage Redevelopment - Phase I
<u>UTHC Tyler</u>	The Riter Center for Advanced Medicine	The Riter Center for Advanced Medicine Phase I

The University of Texas System
Fiscal Years 2006-2007 Capital Budget Repair and Rehabilitation Projects

Attachment 3

	Previously Approved Projects			New Projects	Total Projects
	Current Appropriations	Deleted or Reduced Appropriations	Additional Appropriations	Appropriations For Projects Initiated in the Capital Budget	Capital Budget Total Project Costs
<u>UT Arlington</u>					
Activities Building Renovation and Expansion-Phase I				16,370,005	16,370,005
Energy Performance Contract (IM)				15,000,000	15,000,000
Subtotal				31,370,005	31,370,005
<u>UT Austin</u>					
Benedict/Mezes/Batts Renovation - Phase I	48,000,000				48,000,000
Garrison Hall Renovations				10,400,000	10,400,000
Hogg Auditorium Renovation	15,000,000				15,000,000
Jamail Texas Swim Center Renovation - Phase I and Phase II	5,300,000				5,300,000
LBJ Plaza Renovation/Lady Bird Johnson Center				30,000,000	30,000,000
Painter Hall - Mechanical System Upgrades (IM)				4,000,000	4,000,000
Performing Arts Center Infrastructure Upgrades - Phase I and II				14,700,000	14,700,000
Pharmacy Building Renovation - Phase I	250,000				250,000
Renovations to Disch Falk Field				18,000,000	18,000,000
School of Nursing				4,000,000	4,000,000
Speedway Mall North of 21st St. & East Mall/East Mall Fountain				12,000,000	12,000,000
Darrell K Royal-Texas Memorial Stadium Fire and Life Safety/Improvement Planning				10,000,000	10,000,000
Subtotal	68,550,000			103,100,000	171,650,000
<u>UT Dallas</u>					
Center for Brain Health	5,000,000		8,925,000		13,925,000
Founders Renovation	27,293,750				27,293,750
Waterview Science and Technology Center (IM)	2,950,000				2,950,000
Subtotal	35,243,750		8,925,000		44,168,750
<u>UT El Paso</u>					
Campus Energy Performance Project (IM)	4,700,000				4,700,000
Campus Police Relocation (IM)	5,000,000	(3,300,000)			1,700,000
Kelly Hall Renovation of 3 Floors - Phase 2 (IM)	2,286,000				2,286,000
Renovation of Former Academic Services Building (IM)				900,000	900,000
Union West Renovations - 2nd Floor (IM)				1,000,000	1,000,000
Subtotal	11,986,000	(3,300,000)		1,900,000	10,586,000
<u>UT Pan American</u>					
Administrative Offices Renovation (IM)	5,037,000		620,000		5,657,000
Social and Behavioral Sciences Renovation				6,430,000	6,430,000
Subtotal	5,037,000		620,000	6,430,000	12,087,000
<u>UT Permian Basin</u>					

8.10

The University of Texas System
Fiscal Years 2006-2007 Capital Budget Repair and Rehabilitation Projects

Attachment 3

	Previously Approved Projects			New Projects	Total Projects
	Current Appropriations	Deleted or Reduced Appropriations	Additional Appropriations	Appropriations For Projects Initiated in the Capital Budget	Capital Budget Total Project Costs
Mesa Building Improvements/Gymnasium Renovations, Phase I	9,350,000				9,350,000
Subtotal	9,350,000				9,350,000
<u>UT San Antonio</u>					
Downtown Campus Cladding Repairs				850,000	850,000
Monterey Building Renovation				2,700,000	2,700,000
Subtotal				3,550,000	3,550,000
<u>UT Tyler</u>					
University Center Renovations/Expansion				11,000,000	11,000,000
Subtotal				11,000,000	11,000,000
<u>UTMB Galveston</u>					
1108 Strand Renovation				9,800,000	9,800,000
Basic Science Renovation (IM)				6,000,000	6,000,000
Library Facilities Upgrade (IM)				7,900,000	7,900,000
Rebecca Sealy Hospital Renovation (IM)	9,850,000				9,850,000
Research Facilities Expansion	77,180,000				77,180,000
TDCJ Hospital Cladding Restoration (IM)	6,560,000				6,560,000
Subtotal	93,590,000			23,700,000	117,290,000
<u>UT HSC Houston</u>					
Expansion of School of Health Information Sciences (IM)	3,000,000				3,000,000
Medical School Building - Perimeter Berm	10,000,000				10,000,000
Repair of the Medical School Building, Phase I (IM)	60,000,000				60,000,000
Subtotal	73,000,000				73,000,000
<u>UTHSC San Antonio</u>					
Emergency , Fire and Safety Initiative, Phase I	9,000,000				9,000,000
Subtotal	9,000,000				9,000,000
<u>UTMDACC</u>					
Alkek HVAC Redundancy (IM)				13,200,000	13,200,000
American Disabilities Act Upgrades (IM)	6,000,000		12,400,000		18,400,000
Backfill Phase III (IM)	74,500,000		17,100,000		91,600,000
Bates-Freeman Office Conversion (IM)				14,700,000	14,700,000
Brain Suite (IM)	2,800,000				2,800,000
Elevator Modernizations (IM)	3,000,000				3,000,000
Energy Management Projects Phase II (IM)	15,500,000				15,500,000
Exterior Cladding Main Campus (IM)				10,000,000	10,000,000
FEMA 404 Projects (IM)	37,300,000		1,100,000		38,400,000
FEMA 406 Projects (IM)	12,000,000		700,000		12,700,000
FHB Maintenance and Renovation (IM)	6,700,000				6,700,000

8.11

The University of Texas System
Fiscal Years 2006-2007 Capital Budget Repair and Rehabilitation Projects

Attachment 3

	Previously Approved Projects			New Projects	Total Projects
	Current Appropriations	Deleted or Reduced Appropriations	Additional Appropriations	Appropriations For Projects Initiated in the Capital Budget	Capital Budget Total Project Costs
HMB Demolition	10,000,000				10,000,000
Library Expansion (IM)	7,000,000	(4,500,000)			2,500,000
Lutheran Pavilion Patient Tower Refurbishment (IM)	21,500,000		5,500,000		27,000,000
MSI Demolition	3,000,000				3,000,000
Patient Care Life Safety Code Improvements (IM)				7,200,000	7,200,000
Redevelopment-Phase I (IM)	70,000,000	(14,000,000)			56,000,000
Research Lab Renovations (IM)	25,000,000				25,000,000
Roof Replacement Gimbel, Bates Freeman, Anderson Center, New Clark(IM)	4,000,000				4,000,000
South Campus Vivarium Facility (IM)				25,000,000	25,000,000
Subtotal	298,300,000	(18,500,000)	36,800,000	70,100,000	386,700,000
Totals	604,056,750	(21,800,000)	46,345,000	251,150,005	879,751,755

* (IM) - Institutionally Managed

8.12

Approval of Revenue Financing System Debt
For Certain Construction and Repair and Rehabilitation Projects in the FY 2006-2011 Capital Improvement Program

Component	Project	Type 1/	Total Project Cost	Amount of RFS or TRB	Type of Debt	Component DSC 2/
U. T. Arlington	Activities Building Renovation and Expansion - Phase 1	R&R	16,370,000	16,370,000	RFS	
	Energy Performance Contract	R&R	15,000,000	15,000,000	RFS	
U. T. Austin	Garrison Hall Renovations	R&R	10,400,000	10,400,000	RFS	
	Performing Arts Center Infrastructure Upgrades - Phase I and II	R&R	14,700,000	14,200,000	RFS	
	Renovations to Disch-Falk Field	R&R	18,000,000	11,000,000	RFS	
	Stadium Fire & Life Safety/Improvement Planning	R&R	10,000,000	10,000,000	RFS	
U. T. Dallas	Center for Brain Health	R&R	13,925,000	4,000,000	RFS	
U. T. El Paso	Renovation of Former Academic Services Building	R&R	900,000	900,000	RFS	
	Union West Renovations - 2nd Floor	R&R	1,000,000	1,000,000	RFS	
U. T. Pan American	Social and Behavioral Sciences Renovation	R&R	6,430,000	6,430,000	RFS	
U. T. San Antonio	Downtown Campus Cladding Repairs	R&R	850,000	850,000	RFS	
U. T. Tyler	University Center Renovation/Expansion Phase I	R&R	11,000,000	11,000,000	RFS	
U. T. Medical Branch - Galveston	1108 Strand Renovation	R&R	9,800,000	9,800,000	RFS	
	Basic Science Renovation	R&R	6,000,000	6,000,000	RFS	
	Library Facilities Upgrade	R&R	7,900,000	2,950,000	RFS	
Total			142,275,000	119,900,000		

1/ IM = Institutionally Managed; R&R = Repair and Rehabilitation; INC = Increase in RFS Debt.

2/ Component Debt Service Coverage ("DSC") is net revenue divided by debt service. TRB DSC is based on the U. T. System's combined financial forecast.



Capital Improvement Program FY 2006 - 2011

The University of Texas System
Board of Regents

August 11, 2005

Capital Improvement Program

Overview

- CIP Includes:
 - New Construction of \$1 million or greater
 - Repair and Renovation of \$2 million or greater
 - Any project with Board-authorized debt
- Adopt the FY 2006 - 2011 CIP
 - Allows up to 3% to be spent on CIP projects for programming and Design Development
 - Authorizes Institutional Management of those projects so designated
- Approve the Capital Budget (FY 2006 and 2007)
 - New Construction and architecturally or historically significant Repair and Rehabilitation projects will be presented to Board (at later date) for Design Development approval with request for appropriation of funds.
 - Funds for Repair and Rehabilitation projects are appropriated. Associate Vice Chancellor for Facilities Planning and Construction will approve Design Development (unless institutionally managed).
- Adjust appropriations for previously appropriated projects
- Appropriate funds for Repair and Rehabilitation and Institutionally- Managed projects initiated in the Capital Budget
- Approve new request for Revenue Financing System Bonds for Repair and Rehabilitation project in the Capital Budget

Capital Improvement Program

FY 2006-2011 Capital Improvement Program Summary

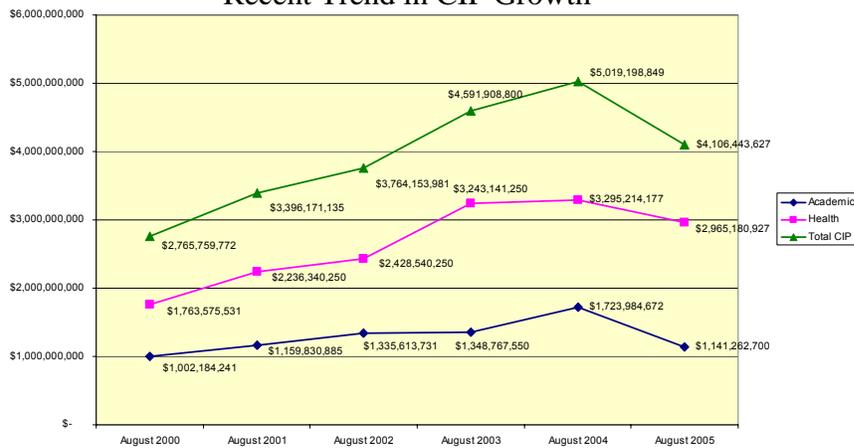
136 Projects totaling \$4.11 Billion

Current CIP (2004-2009)	\$5,019,984,849
Net Changes to Existing Projects	191,635,000
Completed Projects	(1,803,811,227)
Removed Projects	(179,140,000)
New Projects Added	877,775,005
New CIP (2006-2011)	\$4,106,443,627

Capital Improvement Program

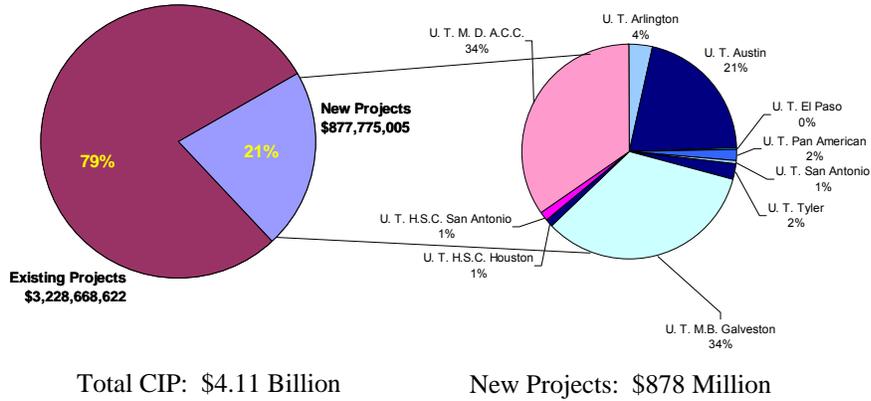
FY 2006-2011 Capital Improvement Program Summary

Recent Trend in CIP Growth

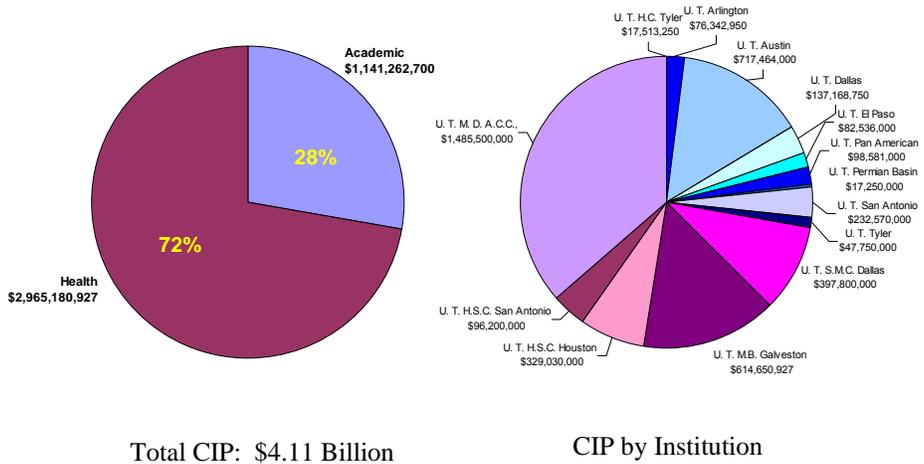


Capital Improvement Program FY 2006-2011 Capital Improvement Program Summary

136 Projects totaling \$4.11 Billion

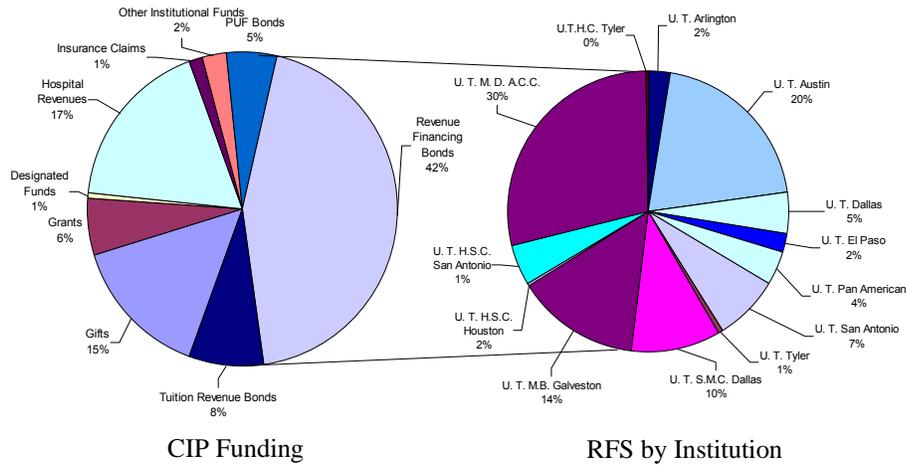


Capital Improvement Program FY 2006-2011 Capital Improvement Program Summary



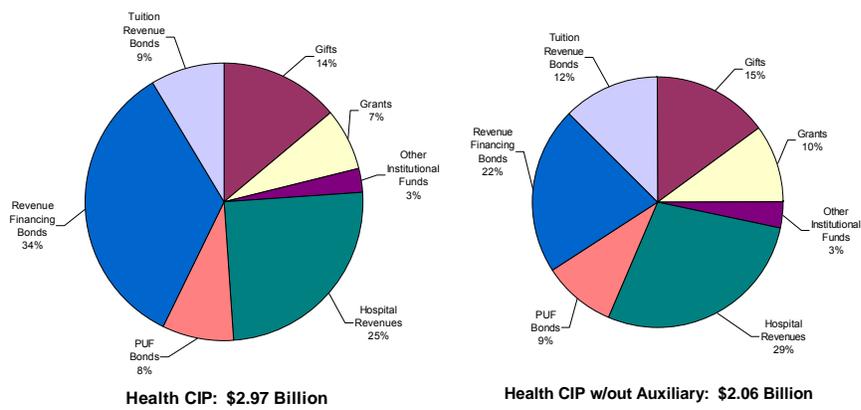
Capital Improvement Program

FY 2006-2011 Capital Improvement Program Summary



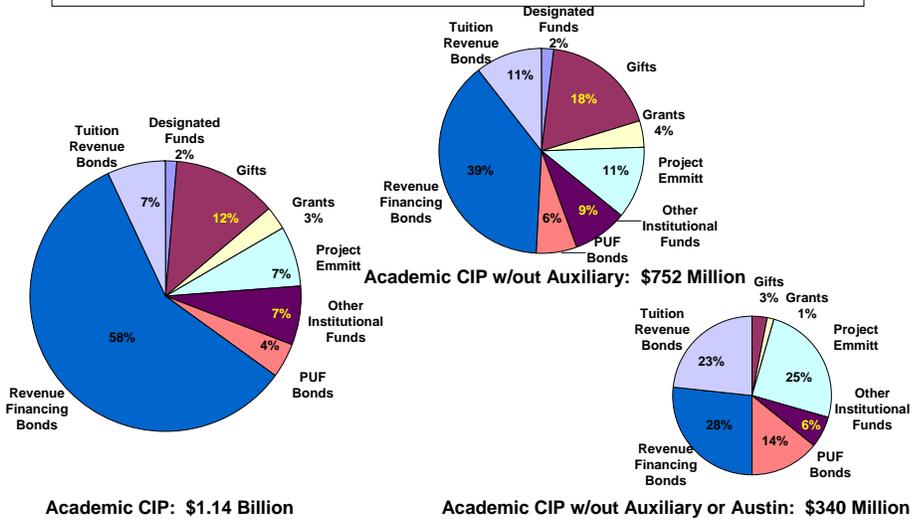
Capital Improvement Program

FY 2006-2011 Capital Improvement Program Summary



Capital Improvement Program

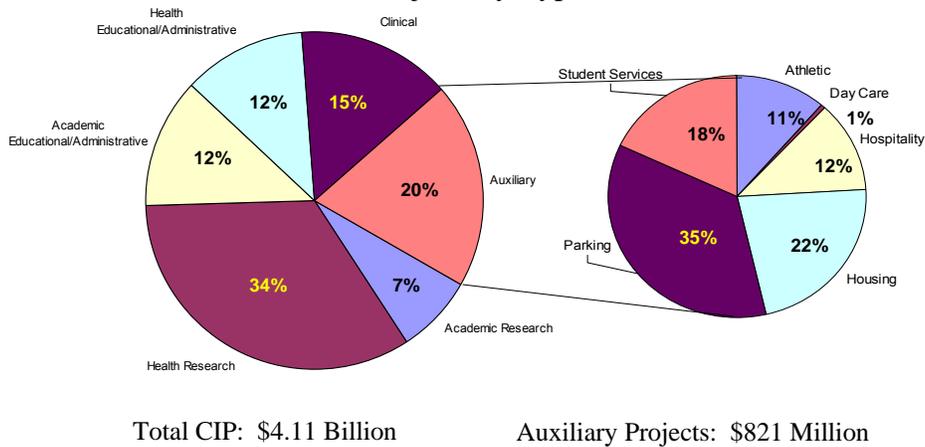
FY 2006-2011 Capital Improvement Program Summary



Capital Improvement Program

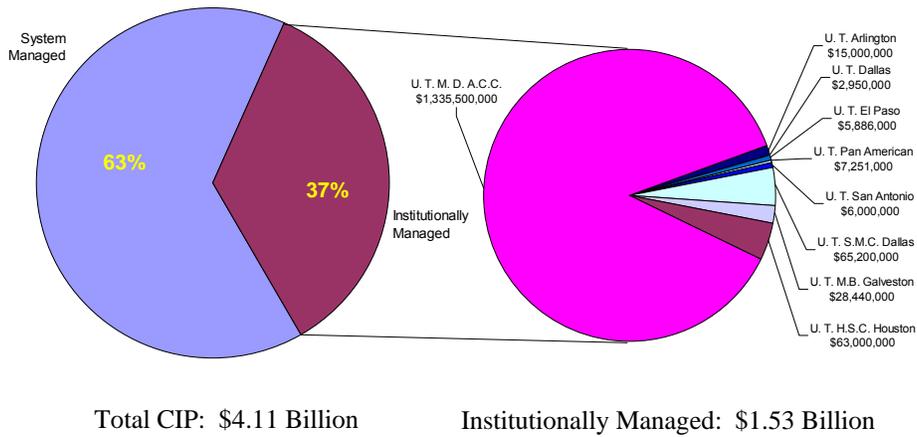
FY 2006-2011 Capital Improvement Program Summary

Projects by Type



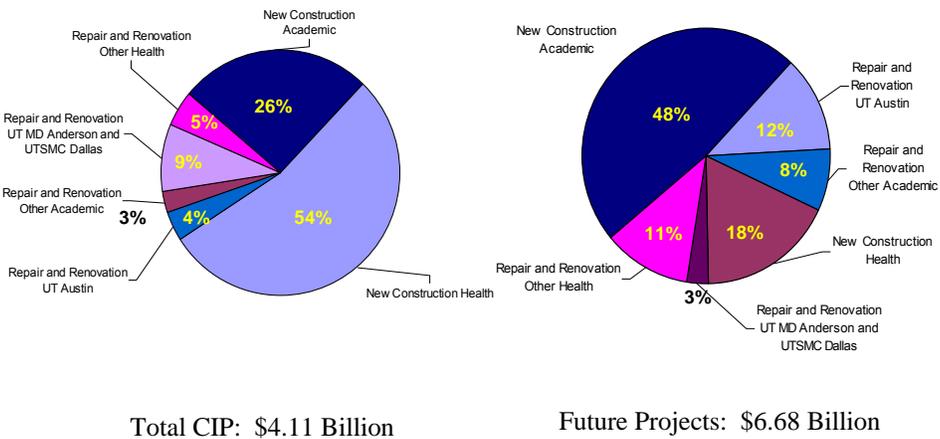
Capital Improvement Program

FY 2006-2011 Capital Improvement Program Summary



Capital Improvement Program

FY 2006-2011 Capital Improvement Program Summary



Capital Improvement Program

Estimated Economic Impact of CIP

▪ Total CIP:	\$ 4.11 Billion
▪ Construction Economic Impact:	\$ 7.39 Billion
▪ 10-Year Earnings Economic Impact:	\$10.19 Billion
Total 10-Year Estimated Economic Impact:	\$17.58 Billion

Capital Improvement Program

Recap of Requested Actions of the Board

- Adopt the FY 2006 - 2011 CIP
- Approve the Capital Budget
- Adjust appropriations for previously appropriated projects
- Appropriate funds for Repair and Renovation and Institutionally-Managed projects initiated in the Capital Budget
- Approve new request for Revenue Financing System Bonds for Repair and Rehabilitation project in the Capital Budget

5. **U. T. System: Approval of the nonpersonnel aspects of the operating budgets for the fiscal year ending August 31, 2006, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects**

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the U. T. System institutions, recommends that the nonpersonnel aspects of the U. T. System Operating Budgets for the fiscal year ending August 31, 2006, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, be approved.

It is further recommended that the Chancellor be authorized to make editorial corrections therein and that subsequent adjustments be reported to the U. T. System Board of Regents through the docket.

It is requested that Permanent University Fund Bond Proceeds in the amount of \$70,000,000 be appropriated to the institutions to fund Library, Equipment, Repair and Rehabilitation (LERR) Projects for Fiscal Year 2006. Of the \$70,000,000, it is requested that \$40,000,000 be appropriated directly to U. T. System institutions. This would authorize the purchase of approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases or repair and rehabilitation projects are to receive prior approval by the Chancellor, the appropriate Executive Vice Chancellor and, where required, the U. T. System Board of Regents. Transfers by U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with procedures for construction projects established by the U. T. System Board of Regents.

Of the remaining \$30,000,000, it is requested that \$15,000,000 be appropriated to provide additional funding to build and enhance research infrastructure to attract and retain the best qualified faculty known as the Science and Technology Acquisition and Retention (STARs) Program. Through a competitive proposal process determined by U. T. System Administration, funds will be distributed to the seven academic institutions for recruiting top researchers. It is requested that \$10,000,000 be appropriated to provide funds to substantially strengthen programs within the U. T. Health Science Center - Houston School of Public Health; its four regional campuses: Brownsville, Dallas, El Paso, and San Antonio; and a potential campus at U. T. Austin. It is further requested that the remaining \$5,000,000 will be used to provide for equipment and renovations related to the recruitment and retention of faculty at U. T. Schools of Nursing and support of improved instruction and research in these institutions. More information on these three important initiatives is provided on Pages 10.1 – 10.3.

It is further recommended that LERR appropriations not expended or obligated by contract or purchase order within six months after the close of Fiscal Year 2006 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the appropriate Executive Vice Chancellor upon recommendation of the president of the institution.

BACKGROUND INFORMATION

A supplemental volume of the budget materials titled "Operating Budget Summaries and Reserve Allocations for Library, Equipment, Repair and Rehabilitation" is enclosed in the back pocket of this Agenda Book.

See the Executive Session item related to the personnel aspects of the U. T. System Operating Budgets (Item C.2 on Table of Contents Page i for Meeting of the Board).

The appropriation of Permanent University Fund Bond Proceeds will be presented in the Fiscal Year 2006 LERR Budget. This is the third and final year that U. T. Dallas will be appropriated \$10,000,000 of these funds for equipping a Natural Science and Engineering Research Building and Technology Accelerator built in connection with an economic development effort with the State of Texas and Texas Instruments. U. T. Dallas will not participate in the allocation of remaining funds. The allocation of these LERR funds to the U. T. System institutions was developed from prioritized lists of projects submitted by the institutions and reviewed by U. T. System Administration staff.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation has been prepared and is provided on Page 40.4. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

Science and Technology Acquisition and Retention (STARs) Program

For Fiscal Year 2006 Chancellor Yudof and the Executive Vice Chancellor for Academic Affairs recommend a \$15 million allocation from Library, Equipment, Repair and Renovation (LERR) funds in support of recruiting high-caliber scientists and engineers to U. T. academic institutions. Last fiscal year a one time allocation of \$60 million was set aside to help attain and retain the best qualified faculty at both health and academic institutions. The \$60 million appropriated last fiscal year was in addition to the LERR funding that U. T. System annually expends on LERR projects. This second year request of \$15 million for STARs at academic institutions is also above the amount typically set-aside for LERR projects. Funds made available for Fiscal Year 2006 will again be used for start-up and retention packages in science and engineering fields. The recruitment of high-caliber scientists and engineers to U. T. institutions is a high priority and the additional LERR funding will be used to help build the infrastructure for the additional faculty.

For Fiscal Year 2006, the STARs package of \$15 million will be centrally administered by the U. T. System for start-up or retention packages for tenured faculty of proven quality who are recommended from the campuses by a faculty group that operates above the college level at the nominating university. The STARs package will be competitive. The minimum size for the STARs package will be \$5,000, and requests for \$5,000 to \$50,000 will be determined by the Office of Academic Affairs. Packages above \$50,000 and up to a maximum size of \$500,000 will be vetted at the U. T. System Administration level by a peer review committee chaired by the Executive Vice Chancellor for Academic Affairs. The funds will be available only for laboratory renovation and equipment purchases.

Public Health Initiative - Health Institutions

For Fiscal Year 2006, Chancellor Yudof and the Executive Vice Chancellor for Health Affairs are recommending a \$10 million allocation of LERR funds in support of a major U. T. System Public Health Initiative. Texas must strengthen its public health enterprise. With a rapidly growing population, increasing challenges of hypertension, diabetes, obesity, infectious disease, and rising healthcare costs, it will be critical for the state to provide effective programs that prevent disease and promote health. These are the central missions of public health.

The U. T. System Task Force on Public Health recommended substantial strengthening of programs within the U. T. Health Science Center at Houston School of Public Health, its four regional campuses: Brownsville, Dallas, El Paso and San Antonio; and a potential campus at U. T. Austin. Among the important recommendations of the Task Force were:

1. Regional public health campuses must work in close collaboration with host campuses including joint program development, educational and research efforts, community outreach and faculty recruiting.

2. An integrated long distance learning system must be developed to take full advantage of the talent available at the various campuses to provide education for students (in many cases it is not feasible to have all required disciplines represented by faculty at a given campus).
3. Additional faculty will be required to create critical masses of investigators at regional campuses. The Task Force recommended an increase from an average of 9 faculty on each campus to approximately 15 faculty.
4. Create a range of new degree opportunities for students at all campuses. This would include an undergraduate Bachelor of Public Health degree as well as additional master's and doctoral degrees (a certificate program in public health was recommended by the Task Force and was subsequently approved by the Texas Higher Education Coordinating Board).

In addition to dissemination of the Report on Public Health to all relevant campuses, joint planning groups have evolved at the regional sites. These include representatives from Regional Public Health campus' and the host academic campus. Professor Joseph McCormick of the Public Health Campus at Brownsville has been appointed as Chancellor's Health Fellow in Public Health. He will lead System-wide efforts in strengthening education, research and public policy programs related to prevention.

A commitment of support by the U. T. System for an initiative in public health is a demonstration of strong commitment to important needs in Texas. It would strengthen the argument for similar commitments by other organizations, foundations, state and local government. Significant additional sponsored research funding would be achieved by the addition of outstanding faculty. Indirect cost return from such research would further strengthen the infrastructure for public health. Collaboration between the academic and public health campuses would be facilitated and enhanced. As the Chancellor's Health Fellow Professor McCormick carries out his role, the message in support of public health would be compelling.

The \$10 million in LERR funds being appropriated for the Public Health Initiative will be used for equipment and renovations. Uses would include:

- a. Equipment and renovations required as part of faculty recruitment packages in the various public health campuses. Such recruitments would be carried out jointly with the associated academic or health campus and U. T. Health Science Center at Houston School of Public Health.
- b. Provide equipment and facilities support at Houston for infrastructure of an integrated distance learning program and public health initiatives.
- c. Support purchase of equipment for creation of a coordinated distance learning initiative which will involve all public health campuses and associated academic or medical campuses.
- d. Provide for renovation/completion of facilities to be used at or by regional public health campuses in collaboration with the host campus to enhance coordinated programs, education and recruitments.
- e. Purchase of core equipment such as computers and other analytical tools in support of this public health enterprise.

Nursing Support Initiative

For FY 2006, Chancellor Yudof and the Executive Vice Chancellor for Academic Affairs, and the Executive Vice Chancellor for Health Affairs recommend \$5 million of LERR funds be used to provide for equipment and renovations related to the recruitment and retention of faculty to U. T. Schools of Nursing and support of improved instruction and research in these institutions.

Texas faces a continuing shortage of well-educated nurses. This shortage will be exacerbated further by rapid growth in the state's population and increased rates of retirement by nurses, whose average age has continued to rise over the past two decades. There is a special need for nurses with bachelors and master's degrees including advanced practice nurses. Available data demonstrates that patient mortality in hospitals declines as the average level of nursing training rises.

There is a substantial opportunity to educate more nurses. Approximately 4,200 individuals applied for admission to nursing schools in Texas in 2004 who could not be accommodated. The ratio of applicants to matriculants was approximately thirteen to one at U. T. Health Science Center at Houston School of Nursing. The limiting factor in enrolling these students is the number of faculty. In part these limitations arise from accreditation standards requiring one full-time nursing instructor for every ten nursing students.

Schools of Nursing of the U. T. System have attempted to create innovative programs to increase educational opportunities for nursing students. These include the use of distance instruction, creation of combined programs which can shorten the duration of required education, arrangements with hospital nursing staff to serve as faculty members, and a variety of other strategies.

The recruitment of nursing faculty is limited by the average academic salaries in nursing compared with average nursing salaries elsewhere. As our efforts continue to improve these salary levels, the availability of additional resources for equipment and renovation would be helpful in creating recruiting packages to attract the best candidates to U. T. Schools of Nursing. This includes computer capabilities and research facilities. In addition, equipment for distance learning, mannequins and other devices for nursing instruction, and improved physical facilities for education of nurses would create a more attractive environment for recruiting the best faculty.

6. **U. T. System Board of Regents: Report on Centralization of Operating Funds**

REPORT

Executive Vice Chancellor Kelley will provide a report on the status of the Centralization of Operating Funds, including a proposed timeline for implementation as set forth on Page 11.1.

Timeline for Centralization of Operating Funds

Step	Responsibility	Completion Date
1. EVC for Business Affairs creates investment advisory group consisting of four Chief Business Officers and two System representatives	U. T. System	May 15, 2005
2. Board of Regents approves Centralization concept	U. T. System	July 8, 2005
3. Board of Regents approves proposed budget for Centralization	UTIMCO and U. T. System	August 11, 2005
4. UTIMCO Board approves Centralization-related policies	UTIMCO	September 22, 2005
5. UTIMCO hires new Manager of Operating Funds to manage Centralized funds	UTIMCO	September 30, 2005
6. U. T. System staff meets with Credit Rating Agencies to confirm debt ratings and discuss liquidity for debt programs	U. T. System	Week of October 3, 2005
7. Board of Regents approves revised liquidity arrangements for debt programs	U. T. System	November 10, 2005
8. Board of Regents approves policies related to Centralization, including: <ul style="list-style-type: none"> • Amendments to Regents' <i>Rules and Regulations</i>, System policies, and Investment Management Services Agreement • Revisions to existing Investment Policy Statements • Creation of new Investment Policy Statements, including asset allocation for new funds • Approval of new Liquidity Policy and new Derivatives Policy for centralized funds 	U. T. System and UTIMCO	November 10, 2005
9. UTIMCO selects and hires external managers, awaiting funding	UTIMCO	November 18, 2005
10. Institutions complete process to: <ul style="list-style-type: none"> • Establish new accounts • Establish procedure to allocate earnings from new fund • Establish accounting entries needed to shift funds • Establish reconciliation process for new funds • Automate Annual Financial Report schedules for FY 2006 • Complete training for transition from existing funds to newly created funds 	Institutions, U. T. System, UTIMCO	December 31, 2005
11. Centralized funds are operational	All	January 31, 2006

7. **U. T. System Board of Regents: Approval of proposed Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO) and related actions**

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the proposed Annual Budget as set forth on Page 13.2 and the Annual Fee and Allocation Schedule for the fiscal year ending August 31, 2006, as set forth on Page 13.6.

BACKGROUND INFORMATION

A proposed Annual Budget of \$48.6 million for Fiscal Year 2006 was approved by the UTIMCO Board on July 21, 2005. The proposed Budget is an increase of 27.3% from the Fiscal Year 2005 Budget. The Budget includes \$6.8 million for the implementation and management of the centralized operating funds. Excluding the costs for centralization, the proposed Budget is 9.5% greater than the Fiscal Year 2005 Budget (17% more than projected actual Fiscal Year 2005 expenses).

Background materials prepared by UTIMCO President, Chief Executive Officer, and Chief Investment Officer Bob Boldt are on Pages 13.1 – 13.6.

A Budget Report, prepared by the U. T. System Office of Finance and included on Pages 13.7 – 13.18 reviews the proposed Annual Budget. The Executive Summary for the Report is on Page 13.9.

At the July 8, 2005, joint meeting of the UTIMCO Board and the U. T. System Board of Regents, Cambridge Associates presented the UTIMCO Cost Study that was completed earlier this year. Sixteen public and private universities are represented in the study, with data reported for the twelve months ended June 30, 2004. The Cost Study concluded that UTIMCO's combined costs of investment oversight and asset management during that period were below comparable median costs of the university peer group, measured as a percent of each institution's total investment assets.

Projected actual Fiscal Year 2005 oversight costs would place UTIMCO above the Fiscal Year 2004 median for the peer universe and private endowments surveyed by Cambridge, but well below comparable public endowment funds with respect to these components of total costs. Further cost increases in the Fiscal Year 2006 proposed Budget will place UTIMCO closer to the median for public endowment peers.

Cambridge Associates reports that the evidence of diseconomies of scale associated with UTIMCO's active management style is consistent with the data provided by peers in their recent UTIMCO Cost Study. They indicate that greater allocations to alternative assets correspond with higher overall cost structures among peer endowments.

Budget materials prepared by
UTIMCO

UTIMCO Budget Analysis and Recommendation

The Investment Management Services Agreement between the U. T. Board of Regents and UTIMCO requires that UTIMCO submit its annual budget and management fee schedule to the Board of Regents for approval. The Total Budget consists of UTIMCO's management fee (the UTIMCO Services Budget) plus the budget for the direct expenses to the Funds, the Direct Funds Budget.

As indicated above, the UTIMCO related budget for management of the endowment and operating funds is comprised of two distinct elements. The "UTIMCO Services Budget" provides for all expenses directly associated with UTIMCO operations including staff compensation and benefits, general operating expenses such as travel and computer equipment, office expenses, and professional fees including general legal and accounting expenses. The "Direct Funds Budget" provides for all expenses directly related to the external management of assets of the endowment and operating funds. These expenses include external management fees, custodian fees, analytical resources expenses, general consulting expenses (Cambridge Associates), and individual investment related legal and accounting expenses. The sum of the UTIMCO Services Budget and the Direct Funds Budget equals the Total Budget for the August 2006 fiscal year. This year there is a new component of the Direct Funds Budget; those expenses directly related to the new investment pools created to manage U.T. System's operating funds.

UTIMCO management has direct control of the UTIMCO Services budget and expenses. The Services budget is developed through a decentralized process with each Managing Director having some level of budgetary responsibility. Actual expense performance relative to the budget is an element of the qualitative performance compensation review for each Managing Director and Manager at UTIMCO.

In contrast, because the Direct Funds expenses are affected significantly by price changes in the capital markets and by the level of activity in external manager accounts operating under full discretion, UTIMCO management has only limited control of the Direct Funds budget and expenses. UTIMCO control is limited to selecting the types of external managers to be hired (active versus passive or partnership versus agency account, for example) and negotiating the best and most advantageous contract terms. Although the performance of actual Direct Fund expenses relative to budget is not a part of qualitative incentive compensation considerations for UTIMCO management, because all Services and Direct Funds expenses reduce the net returns earned by the endowment and operating funds, UTIMCO management has clear incentive to manage Direct costs so as to maximize net investment returns. Note that this does not necessarily mean that attempting to minimize Direct (or Services) costs is the best approach. What is important both to UTIMCO management and the funds is maximizing net returns.

On July 21, 2005, the UTIMCO Board of Directors unanimously approved the proposed 2005-2006 Annual Budget and Management Fee Schedule. These recommended 2005-2006 Fiscal Year UTIMCO Services and Direct Fund budget totals are presented below:

Budget Comparisons	Fiscal Year 2005-2006 Budget	Fiscal Year 2004-2005 Budget	Increase (Decrease)	% Change
UTIMCO Services	\$ 11,434,302	\$ 10,450,615	\$ 983,687	9.41%
Direct Fund Expenses	30,319,406	27,696,238	2,623,168	9.47%
New Operating Funds Direct Expenses	6,792,284	-	-	-
Total Budget	\$ 48,545,992	\$ 38,146,853	\$ 1,399,139	27.26%
As a Percent of Assets Managed	0.277%	0.239%	0.038%	

With this overview of the recommended budgets, the following sections focus on the UTIMCO Services, Direct Funds, and New Operating Funds Investment Options budgets separately.

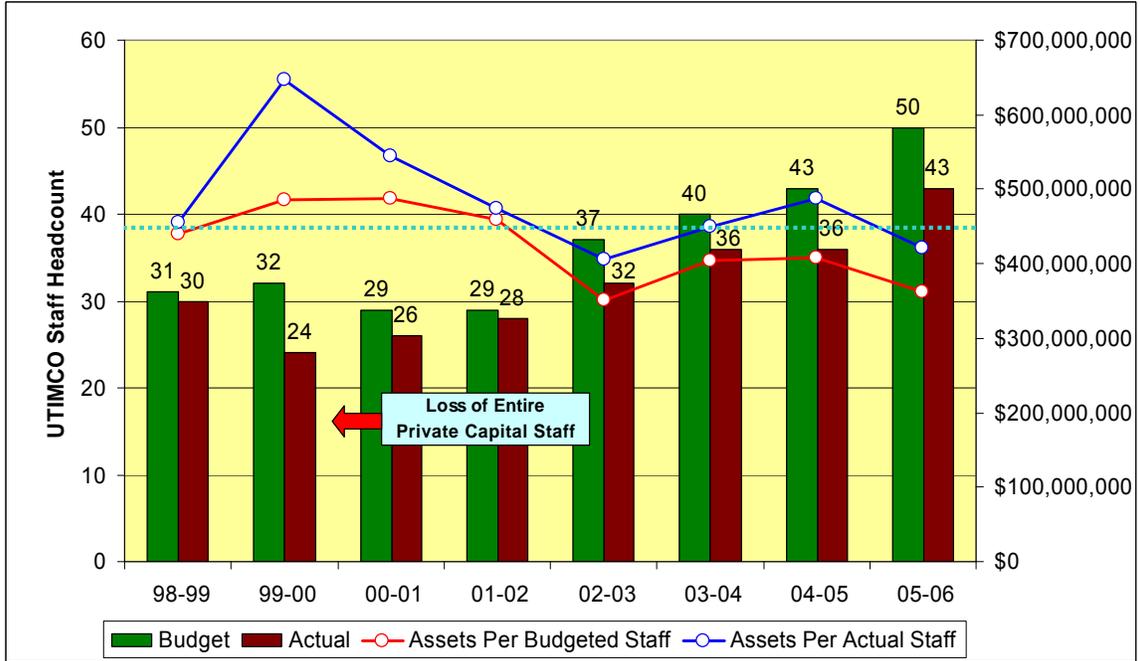
UTIMCO Services Budget

The primary items affecting the increase in the UTIMCO Services budget are salary increases for existing staff and new additions to the staff.

Salary Increases for Existing Staff: UTIMCO's compensation policy is to pay competitive base salaries. Competitive base salaries are defined to be salaries within a plus or minus 20% band centered on the market median salary for a similar position in an endowment fund or investment management organization. We obtain information on market median salaries for upper level accounting and administration and investment positions at UTIMCO from Mercer on a regular basis. Salary levels for other accounting and administrative positions are based on local competition in similar organizations. Overall staff salaries increased by 4.8%; in line with the market data we received from Mercer. On average among the senior staff, base salaries are at 97% of the market median despite the fact that we have a very talented and experienced staff. Most of these staff members should have above median salaries, so it is important to try to continue to move to higher levels which can only be done through above average increases. The Compensation Committee of the UTIMCO Board reviewed and approved the staff salaries included in the budget request.

New Additions to Staff: The largest increase to the budget is due to the addition of 5 new positions to the staff; all directly related to managing and implementing the new operating funds investment options. The new positions being recommended are a Manager responsible for the day to day operations of the estimated \$3.8 billion series of new funds, Analyst in Marketable Alternatives to handle the additional workload as significant assets are added to this asset class, Risk Management Analyst to add required staffing to manage and evaluate new risk models and data integrity, and two accounting / operations specialists to manage the accounting and operations for the new series of operating funds investment options.

Although the budgeted headcount has increased substantially since the ebb in 2000, current and projected assets managed per staff are very near the long term average indicated by the dashed line in the figure below:



The increase in staff count from 2000 is due to two factors: first, 2000 was an artificially low starting point, the staff was dangerously thin after the loss of the Private Capital team, necessitating a multimillion dollar payment to Cambridge Associates to monitor existing investments; and second, our current high return potential, specialist structure requires both a more experienced and larger team to monitor the more sophisticated investments we need to make to earn high value added returns. The current year additions are entirely a result of implementing the new operating fund strategies and because of this immediate increase to staff (with no corresponding increase in assets managed), serve to reduce the assets managed per staff.

Direct Fund Budget

The details of the Direct Fund budget are shown below:

Direct Funds Budget	Fiscal Year 2005-2006 Budget	Fiscal Year 2004-2005 Budget	Increase (Decrease)	% Change
External Management Fees	\$14,712,719	\$15,043,557	(\$330,838)	-2.20%
External Performance Fees	10,391,371	8,460,603	1,930,768	22.82%
Total External Management Fees	\$25,104,090	\$23,504,160	\$1,599,930	6.81%
Custodian Fees	\$1,786,932	\$1,226,918	\$560,014	45.64%
Performance Measurement	505,800	385,900	119,900	31.07%
Analytical Tools	289,570	299,810	(10,240)	-3.42%
Risk Measurement	646,000	575,000	71,000	12.35%
Total Custodian and Analytical Costs	\$3,228,302	\$2,487,628	\$740,674	29.77%
Cambridge Associates Fee	900,000	900,000		
Auditing	176,300	190,300	(14,000)	-7.36%
Controls Assessment (Sarbanes-Oxley)	150,000	95,000	55,000	100.00%
Printing	145,416	120,000	25,416	21.18%
Bank Fees	6,000	9,000	(3,000)	-33.33%
Rating Agency Fees	23,100	23,500	(400)	-1.70%
Legal Fees	540,000	345,750	194,250	56.18%
Background Searches and Other Due Diligence	46,200	20,900	25,300	100.00%
Total Other Expenses	\$1,987,016	\$1,704,450	\$282,566	16.58%
Total Direct Funds Expenses	\$30,319,407	\$27,696,238	\$2,623,169	9.47%
As a Percent of Average Assets	0.173%	0.173%		

As indicated earlier in the overview of the entire budget, the total Direct Funds Budget is expected to expand 9.47% on a dollar basis, but stay at approximately the same level as a percentage of Assets Managed. Other key points to note:

- \$1,599,930 or 61% of the increase is related to estimated increases for external manager fees based upon continued good performance.
- \$740,674 or 28% of the increase is for increased custody, analytical, and other direct costs. Approximately \$250,000 is directly related to moving to “daily valuations” to gain more timely information for risk control and management decisions. The remainder is due to estimated increases in the number of actively managed accounts, transaction costs, and the increased dollar amounts of assets under custody.
- \$282,566 or 11% of the increase is for additional audit fees, costs related to implementation of Sarbanes-Oxley, and legal fees.

Direct Funds Budget – New Operating Funds Investment Options

The estimated direct expenses of implementing and managing the new operating funds options are the final component of the total UTIMCO Budget. External manager fees of \$5,708,281 represent the majority (84%) of these estimated costs. The associated custody fees (\$569,243) comprise 8.3% of the total expenses. The additional details of these expenses are shown on the next page.

	<h2>New Operating Funds Budget Overview</h2>
New Operating Funds Expenses	
External Manager Fees	5,708,281
Custodian Fees	569,243
Performance Measurement	115,369
Risk Measurement	157,121
Cambridge Fees	200,000
Auditing	37,620
Controls Assessment (Sox)	(13,500)
Printing	5,250
Rating Agency Fees	(23,100)
Legal Fees	15,000
Background Searches & Other	21,000
Total Operating Funds Expenses	6,792,284

Allocation of Expenses Across Funds

The final step in the budgeting process is to equitably allocate the budgeted expenses across the Funds. The UTIMCO Services budget has traditionally been allocated on the basis of a combination of relative asset value of the Funds and total staff time dedicated to the management of each Fund. Budgeted expenses for 2005-2006 were allocated as follows: Permanent University Fund 48%, Long Term Fund 29%, Permanent Health Fund 6%, Short Intermediate Term Fund 2%, and the new operating funds options 15%. These allocations are very similar to prior fiscal year allocations.

Direct Funds expenses are charged to each fund on the basis of costs actually incurred. Only those Direct costs associated solely with the PHF, LTF, SITF, or the operating funds are charged against those Funds.

UTIMCO Budget
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2006

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Short Intermediate Term Fund (SITF)	Short Term Fund (STF)	Institutional Index Funds (IIF)	Separately Invested Funds (SIF)	New Operating Funds	Total
UTIMCO Management Fee (1) (includes all operating expenses associated with the general management of the Funds)	5,591,136	704,817	3,259,091		196,943				1,682,317	11,434,302
Direct Expenses of the Fund										
External Management Fees	9,692,367	0	0	5,020,351		N/A (2)			5,708,281	20,421,000
External Management Fees - Performance Based	7,441,918	0	0	2,949,453						10,391,371
Other Direct Costs	2,719,717	14,910	143,128	2,205,988	131,575				1,084,003	6,299,320
Total Direct Expenses of the Fund	19,854,002	14,910	143,128	10,175,792	131,575		0	0	6,792,284	37,111,691
TOTAL	25,445,138	719,727	3,402,219	10,175,792	328,518	N/A (2)	0	0	8,474,601	48,545,992
Market Value 2/28/05 (\$ millions)	8,832.2	896.5	3,795.3	4,691.8 (3)	1,206.4	2,388.2	215.4	213.0	3,810.0 (4)	17,547.0
Percentage of Market Value										
UTIMCO Services	0.063%	0.079%	0.086%	0.000%	0.016%	0.000%	0.000%	0.000%	0.044%	0.065%
Direct Expenses of the Fund	0.225%	0.002%	0.004%	0.217%	0.011%	0.000%	0.000%	0.000%	0.178%	0.211%
TOTAL	0.288%	0.080%	0.090%	0.217%	0.027%	0.000%	0.000%	0.000%	0.222%	0.277%

(1) Allocation Ratio: PUF-48%,Health Fund-6%,LTF-29%, SITF-2%, Ops-15%

(2) Income is net of fees

(3) Pooled Fund for the collective investment of the PHF and LTF

(4) This Ops Fund is anticipated to include the balances of the STF, SITF and IIF.

(amounts may not foot due to rounding adjustments)

Budget review prepared by
the Office of Finance

July 25, 2005

**FY 2006 UTIMCO PROPOSED BUDGET
U. T. System Office of Finance -- Staff Review**

**The University of Texas System
Office of Finance**

Prepared by:

**Cathy Swain – Director of Investment Oversight
Jerry Modjeski – Senior Financial Analyst**

July 25 2005

**FY 2006 UTIMCO PROPOSED BUDGET
U. T. System Office of Finance -- Staff Review**

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**FY 2006 UTIMCO PROPOSED BUDGET
U. T. System Office of Finance -- Staff Review**

I. EXECUTIVE SUMMARY

U. T. System Investment Oversight Staff reviewed the UTIMCO proposed FY06 budget, including UTIMCO Services and Direct Costs to Funds. Table 1 compares the proposed FY06 budget to FY05 budgeted and projected expenses. Exhibit A provides a more detailed comparison.

**Table 1
UTIMCO FY05 Projected Actual and FY06 Budget Summary (\$000's)**

	FY05		FY06			
	Budget	Projected Actual*	Budget	Dollar Increase	% Increase vs FY05 Budget	% Increase vs FY05 Actual
UTIMCO Services	\$10,451	\$10,085	\$11,434	\$1,349	9%	13%
Direct Costs to Funds	\$27,696	\$31,500	\$37,110	\$5,610	34%	18%
Total Budget	\$38,147	\$41,585	\$48,543	\$6,959	27%	17%

*Based on actual expenses through May 31, 2005.

FY05 Projected Actual Expenses are forecast by UTIMCO to be 9% over budget, based on actual YTD expenses through May 31, 2005. While UTIMCO Services expenses are under budget overall (primarily due to budgeted but unfilled positions), Direct Costs to Funds are projected to be over budget 14%:

- External Management Fees overall are projected to exceed the budget by more than \$3 million due to higher performance fees paid for better than budgeted performance.
- Custody and Analytical Costs charged to the funds are nearly \$0.2 million over budget.
- Total Legal Fees of \$1.4 million are projected to be nearly \$0.9 million (170%) over budget.

FY06 Proposed Budget of nearly a 17% increase from FY05 projected actual expenses represents a 27% increase from the FY05 budget.

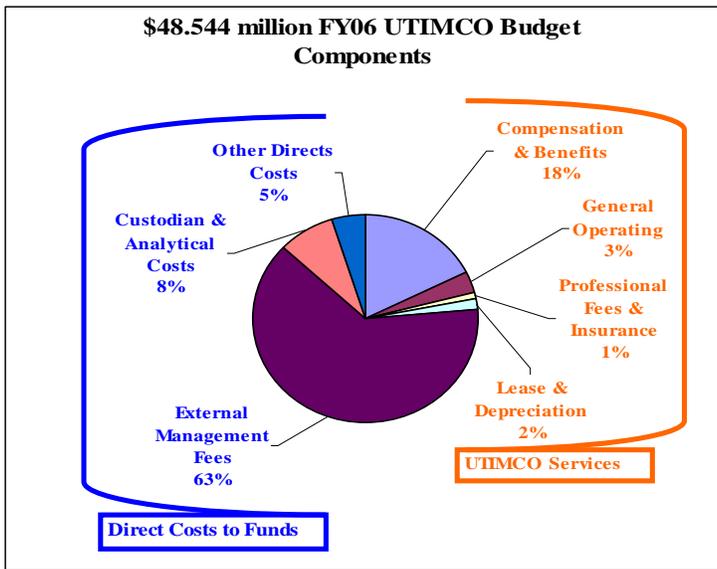
- Implementation of centralized management of operating funds will phase in active management of approximately \$3 billion in an asset mix that is more complex and costly than the current funds, impacting both UTIMCO Services and Direct Costs to Funds. Exhibit B itemizes approximately \$7 million of direct expenses budgeted for centralized management of operating funds.
- Custody, Performance Measurement, and Risk Management expenses continue to increase significantly, reflecting expanded services for monitoring portfolios, internal derivative exposures, and externally managed hedge fund positions.

Capital expenditures totaling approximately \$1.7 million are proposed to fund relocation costs and anticipated technology upgrades. These estimates, listed in Exhibit D, are reflected as a budgeted \$255k increase over FY05 projected actual depreciation expense.

Observations and Recommendations: UTIMCO staff has been very open and collaborative in sharing information for this review, and responsive to critical analysis. Changing data, however, have made it very difficult to conclude the analysis within the time frame available for Board decision making. We hope that Finance Department feedback was constructive, and that in future years, UTIMCO staff will comply with the IMSA requirement to finalize the budget no later than June 1. Recommendations listed below are also discussed in Section VI starting on page 5.

1. **Analyze Proposed Capital Expenditures**, which appear to be unjustifiably high.
2. **Distribute \$4 million in Surplus Reserves** back to the U. T. System Funds.
3. **Analyze Total Investment Management Costs and Related Performance Benefits** to validate costs that are escalating much faster than the growth in assets.

II. FY06 BUDGET OVERVIEW



UTIMCO retains external managers for approximately three quarters of the \$17.5 billion in assets managed (as of 5/31/05, including operating funds). External Management Fees paid directly dominate the total budget (63%). Direct Costs to Funds also include custody, analytical, and other direct costs. Personnel-related costs are the largest single component of the UTIMCO Services operating budget, which accounts for 24% of the total.

Table 2 below shows the trend of increasing Direct Costs to Funds and UTIMCO Services costs as a percent of total funds under management (including operating funds) since FY01 relative to growth in funds managed and staffing. Exhibit C documents

in more detail the five-year expense trend from FY02 through FY06. We understand that these expenses, paid directly by the funds and estimated to average .25% in FY05, compare to the “expense factor” targeted in the investment policy statement goals at .35% of funds managed.

Table 2
UTIMCO Trends Summary

	Actual				Projected	Budget
	FY01	FY02	FY03	FY04	FY05	FY06
UTIMCO Services & Direct Costs to Funds \$millions	\$21	\$25	\$24	\$34	\$42	\$49
Total Average Funds Managed \$ millions*	\$14,836	\$13,716	\$14,034	\$15,470	\$16,711	\$18,132
% Change in Total Funds Managed		-8%	2%	10%	8%	8%
UTIMCO Direct Costs % of Total Funds Managed	0.14%	0.18%	0.17%	0.22%	0.25%	0.27%
Number of Active Employees at UTIMCO	28	29	37	38	42	52
Assets managed per Employee \$ millions	\$530	\$473	\$379	\$407	\$398	\$349

* Total average funds managed were calculated for FY's 2001-2004 using beginning and ending FY totals as of August 31 and dividing by two. The average is estimated for FY05 using May 31, 2005 ending values, and budgeted for FY06 assuming an 8% increase in total average assets.

The effects of the shift to greater emphasis on alternative assets, performance based management fees, and competitive incentive compensation for UTIMCO personnel are apparent in the increasing costs as a percent of funds managed. Active management of the centralized operating funds will predictably result in higher percentage costs in FY06. While these components of the expense factor remain below the .35% target, justification for this escalating cost structure requires further analysis in conjunction with UTIMCO Staff and consultants to validate corresponding performance benefits.

Although UTIMCO does not budget for third party fees and expenses that are netted against reported asset values for investments in externally managed partnerships, mutual funds, and hedge funds, investment performance is reported net of all costs including these fees and expenses. As of May 31, 2005, assets managed externally with values and performance reported net of fees and expenses totaled nearly \$5 billion, or 28% of the total U. T. System assets managed by UTIMCO.

III. UTIMCO Cost Study Update

Cambridge Associates reports that the evidence of diseconomies of scale associated with UTIMCO’s active management style is consistent with the data provided by peers in their recent UTIMCO Cost Study. They indicate that greater emphasis on alternative assets corresponds with higher overall cost structures among peer endowments.

Table 3 compares updated UTIMCO expense estimates to the peer group surveyed for the Cambridge Cost Study completed May 5, 2005, based on peer data for the twelve months ending June 30, 2004, as a reference. The numbers in the table represent basis points, or hundredths of a percent of Total Assets. Operating funds are included in Total Assets Under management for comparability reasons. Projected actual FY05 oversight costs, as defined in the Cost Study, place UTIMCO above the FY04 median for the peer universe and private endowments surveyed, but well below comparable public endowment funds with respect to these components of total costs. Further cost increases proposed in the FY06 budget place UTIMCO closer to the FY04 median for public endowment peers.

Table 3
Cambridge Associates
UTIMCO Cost Study Updated
(Basis points of Total Funds Managed)

	Investment Supervision Costs		Custody	Legal	Accounting/ Audit	Total Oversight
	Internal	External				
UTIMCO:						
FY04 Actual	4.68	.97	.69	.33	.31	6.97
FY05 Projected	4.73	1.34	.92	.56	.44	7.98
FY06 Proposed Budget	4.84	1.68	1.30	.31	.44	8.56
Cambridge Cost Study FY04 Medians:						
Total Universe	5.29	1.06	1.64	0.26	0.43	7.60
Private	5.35	0.53	1.25	0.26	0.30	7.56
Public	4.74	1.20	2.07	0.25	0.53	9.28

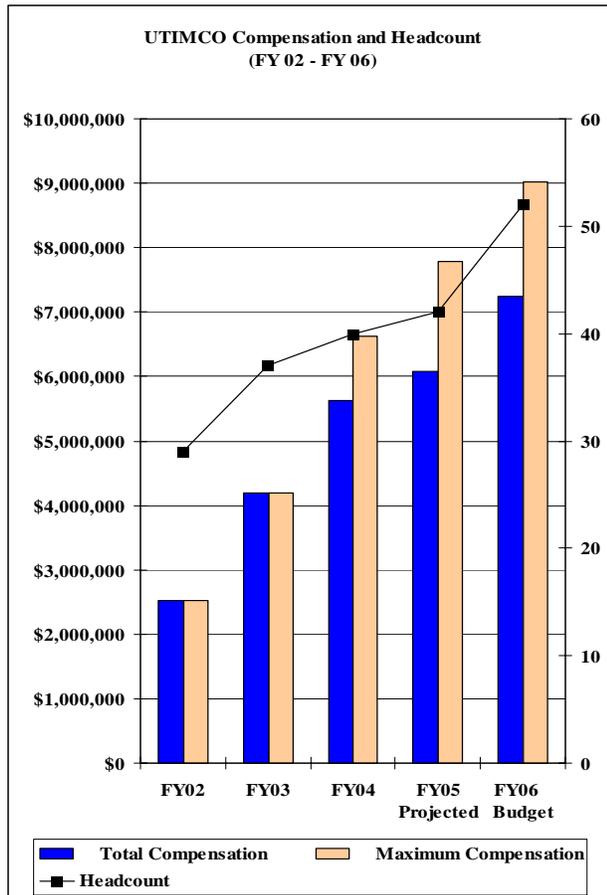
IV. UTIMCO SERVICES

Compensation: More than 74% of the UTIMCO Services budget (18% of the total budget) is directly related to personnel (including employee benefits). Trends in staffing, Total Compensation, and Maximum Compensation (i.e., 100% potential bonus) are charted on page 4 as “UTIMCO Compensation and Headcount – FY02-FY06.” Total compensation since FY02 has significantly outpaced both growth in managed assets and the increase in number of employees. UTIMCO staff has grown 79% from 29 in FY02 to a budgeted 52 in FY06, while Funds managed increased 36%; funds managed per employee declined from \$473k to an estimated \$349k in FY06; Total Compensation grew 187%; and maximum potential compensation increased 257% (Table 2 above).

This staffing trend and apparent diseconomies of scale further illustrate the greater management intensity of the shifting emphasis toward alternative investments. As centralized operating funds are absorbed and fully invested, staff and management will be challenged to improve economies of scale in managing these U. T. System assets.

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Salaries and Wages are projected to be more than \$0.4 million (6%) under budget in FY05 because of four budgeted unfilled positions. The FY06 budget proposes nearly 19% increases in Salaries and Bonuses from a projected actual \$6 million in FY05 to \$7 million. Approximately 40% of the increase is due to the proposed addition of five employees to help manage the centralization of the operating funds. A list and description of these new positions is included in Exhibit B. Three of the four currently budgeted open positions will also be filled to contribute to management of the centralized operating funds in FY06. A proposed nearly 5% average base salary increase for existing employees compares to 3% anticipated average salary increases for System Administration staff.



Bonuses actually paid for FY04 performance were 64% of the maximum potential bonus for all eligible employees (including open positions). In FY05 UTIMCO budgeted for 50% payout of maximum bonuses for all eligible employees, including open positions. Bonus Compensation for FY05 is forecast to be \$50k over budget, with an estimated 56% payout of total maximum potential bonuses for current employees participating in the plan. This estimate could change significantly, depending on final performance results through June 30, 2005, which are not fully reported until sometime in the fall. FY06 bonuses are again budgeted based on an estimated payout of 50% of maximum potential for all eligible budgeted positions.

Employee Benefits budgeted for FY06 are held at 18% of proposed total compensation, which is significantly lower than the U. T. System Administration average of approximately 30% because of higher average compensation levels at UTIMCO. Employee Benefit costs are expected to be under budget in FY05 by -\$52k due to open budgeted positions. While UTIMCO pays a portion of the cost of employee group health, dental, life, short term disability, and long term disability insurances, most of the cost increase in FY05 was absorbed by employees. The Company's share of Employee

Benefits costs is budgeted to increase 26% to \$952k in FY06.

General Operating Expenses of \$1.2 million projected for FY05 are approximately -8% under budget. The FY06 budget proposes a 28% increase to \$1.6 million, with increases in Recruiting and Relocation expenses, On-Line Data Services, Subscriptions, Repairs and Maintenance, Travel, and Other Contract Services.

Office Relocation: Lease Expense in FY05 is projected to exceed the budgeted amount by 9%. UTIMCO's move to larger space in the Frost Bank Tower, budgeted for rental concessions to reduce lease expense starting in the middle of this fiscal year, was delayed until October 2005. Rent concessions at the beginning of the new lease will reduce FY06 lease payments to approximately half of FY05 projected actual levels. From an accrual standpoint, these savings will be spread over the 11-year initial term of the lease.

Capital Expenditures: Estimated capital costs of approximately \$1.7 million, summarized in Exhibit D, are reflected in the \$255k increase in depreciation expense budgeted for FY06. These costs include technology updates as well as costs associated with the office relocation. Please refer to the discussion included with the recommendation regarding these proposed expenditures in Section VI on page 5.

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Professional Fees in total are estimated to be \$541k in FY05, an increase of 158% above the budgeted amount of \$210k. Legal expenses in particular increased from a budgeted \$175k to an estimated \$461k. Total Professional Fees are budgeted to decrease 54% to a proposed \$225k in FY06, assuming that disclosure issues are largely resolved with new legislation that clarifies investment disclosure requirements.

V. DIRECT COSTS TO FUNDS

Direct Costs to Funds are budgeted to increase 18% in FY06 to \$37.1 million. Management of Centralized Operating Funds, to begin phasing in effective December 1, 2005, is projected to add approximately \$6.8 million of Direct Costs (\$7.3 million total budgeted costs – See Exhibit B). Direct external management fees for centralized operating funds are budgeted based on a preliminary asset allocation that must be finalized and approved by the UTIMCO Board and Board of Regents.

External Management Fees represent approximately 83% of Direct Costs to Funds. In FY05, these fees are projected to be nearly \$27 million, 13% over a budgeted \$23.5 million. While direct base asset management fees are forecast to be approximately -\$1.8 million under budget, performance fees are expected to be roughly \$4.8 million (57% over budget). Meanwhile, UTIMCO reports performance this fiscal year in excess of investment policy portfolio targeted returns.

FY06 External Management Fees, budgeted at nearly \$31 million, represent approximately .18% of \$17.5 billion in total funds currently managed (including operating funds) at May 31, 2005. This budget assumes conservative performance results in FY06, and may be understated. Partnership, hedge fund, and mutual fund fees and expenses that are netted from reported investment results are not budgeted.

Custody and Analytical Costs in FY05 are projected to increase 8% from a budgeted \$2.5 million to an estimated \$2.7 million. Increased funds under management and number of accounts, expanded services, and a change from monthly to daily valuations account for increases in FY05 and budgeted for the full year FY06. Risk management expenses charged to the funds in FY05 are expected to be -35% (-\$200k) under budget due to delays implementing the new risk management system. Risk Measurement budget increases 116% to a proposed \$803k in FY06 in anticipation of full implementation of the risk management system, with risk management software and service contracts now in place.

Controls Assessment expenses in FY05 were budgeted for full implementation of Sarbanes Oxley (SOX). In fact, compliance procedures for UTIMCO corporate and the PUF are being implemented, with Financial Statement Certification targeted for October 2006. Related expenses estimated at \$30k this fiscal year to fund U. T. System Audit Office expenses are below the budgeted \$95k, but the FY06 budget expects these costs to increase to nearly \$137k for full SOX implementation for all audited funds.

Legal Fees charged directly to the funds in FY05 are projected to be approximately 171% over budget at \$0.9 million. This increase is attributed to new private capital investments and disclosure issues for private equities and hedge funds. The FY06 budget contemplates that legal expenses will decline by more than one third to approximately \$0.6k with resolution of disclosure requirements.

VI. OBSERVATIONS AND RECOMMENDATIONS

1. **Analyze Proposed Capital Expenditures:** Capital expenditures proposed in connection with the office relocation (summarized in Exhibit D) are provided with little supporting documentation. Build out for UTIMCO occupancy of 28,000 square feet of office space on two floors is budgeted to cost roughly \$786,000; furniture costs of approximately \$486,000 average nearly \$10,000 per employee; and moving costs estimated at \$45,000 average more than \$1,000 per employee. We understand that these cost estimates are significantly higher than were projected last year, and it's not clear that they are complete

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or final. Provision for disposition of nearly \$0.5 million in furnishings in the Bank One Tower is also not resolved. Further support for this capital request is needed.

2. **Distribute \$4 million of Surplus Reserves:** Table 4 summarizes the analysis supporting the recommended cash distribution from the nearly \$9 million UTIMCO corporate reserves as of May 31, 2005, back to the U. T. System Funds per Investment Management Services Agreement formula based upon relative percentage of net assets that each fund represents of the total managed by UTIMCO. This distribution will leave nearly \$5 million in reserves to fund one quarter of the proposed FY06 UTIMCO Services budget (\$2.9 million), payables, up to 100% bonus for eligible employees, and capital purchases proposed in FY06. Contingency allowances in addition to the nearly \$250,000 illustrated in Table 4 are built into the operating budget, estimated capital expenditures, and bonus payout expectations.

Table 4
UTIMCO Distribution Analysis

Assets at May 31, 2005:	
Cash Reserves	3,450,849
Investments	7,365,443
Pre-Paid Expenses	471,420
Accounts Payable	<u>(2,316,399)</u>
Subtotal Reserves	<u>\$ 8,971,313</u>
 Adjusted for:	
UTIMCO Services Budget Surplus Forecast, Balance of FY05	51,329
Return of Bank One Lease Deposit	89,954
One Quarter of FY06 Proposed UTIMCO Services Budget	<u>(2,858,576)</u>
Capital Expenditures Proposed, Net of \$535,900 FY06 Budgeted Depreciation Expense	<u>(1,146,552)</u>
*Additional allowance for up to 100% FY06 Bonus less Incremental Deferral	<u>(860,095)</u>
Net Reserves Available to Distribute to Funds	<u>\$ 4,247,373</u>

**Allowance includes an additional 44% earn-out of maximum potential bonus (56% Bonus Budgeted for FY05), less deferral of payout of approximately 1/3 of the additional amount.*

3. **Analyze Total Investment Management Costs and Related Performance Benefits:** The escalating trend of UTIMCO’s total investment management costs, the shift in portfolio composition to greater emphasis on alternative asset classes, and under-budgeting of external performance management fees suggest that total costs should continue to be monitored closely relative to performance. The justification for the escalating cost structure requires an analysis of “value added” from active management to validate the benefits of efficient (“top down”) strategic and tactical asset allocation and competitive (“bottom up”) manager and asset selection.

The UTIMCO Cost Study completed by Cambridge Associates last spring provides a baseline of peer management costs as a percent of total funds managed. Although the study did not estimate external manager performance fees for the peer group surveyed, UTIMCO has provided what we believe to be reliable estimates of these fees over time. With the Cost Study as a reference point, we recommend an analysis of total investment costs relative to investment performance, to be performed in conjunction with UTIMCO staff and consultants and presented to the Board of Regents.

EXHIBIT A

	UTIMCO Operating Expenses FY05 - FY06					
	FY05 Budget	FY05 Projected	% Change v FY05	FY06 Budget**	Change from FY05 Projected	
					\$	%
UTIMCO Services (Including Centralized Operating Funds)						
Salaries and Wages + vac	4,780,040	4,326,359	-9%	5,463,555	1,137,196	26%
Bonus Compensation + int.	1,704,253	1,751,742	3%	1,778,784	27,042	2%
Total Compensation	6,484,293	6,078,101	-6%	7,242,340	1,164,239	19%
Total Payroll taxes	293,831	291,698	-1%	345,516	53,818	18%
Employee Benefits	804,212	754,557	-6%	952,180	197,623	26%
Total General Operating	1,331,919	1,223,082	-8%	1,564,454	341,372	28%
Total Lease Expense	592,510	645,179	9%	307,212	(337,967)	-52%
Legal Expenses	175,000	461,567	164%	175,000	(286,567)	-62%
Compensation Consultant	25,000	39,500	58%	25,000	(14,500)	-37%
Accounting fees	9,500	40,000	321%	25,000	(15,000)	-38%
Total Professional Fees	209,500	541,067	158%	225,000	(316,067)	-58%
Total Insurance	278,350	270,605	-3%	261,700	(8,905)	-3%
Depreciation of Equipment	456,000	280,576	-38%	535,900	255,324	91%
Total UTIMCO Services	\$ 10,450,615	\$ 10,084,865	-3%	\$ 11,434,302	1,349,437	13%
Direct Costs to Funds (Including Centralized Operating Funds)						
External Mgt. Fees - Direct	15,043,557	13,278,224	-12%	14,712,719	1,434,495	11%
External Mgt. Fees - Centralized Operating Funds				5,706,281		
External Mgt. Performance Fees	8,460,603	13,298,292	57%	10,391,371	(2,906,921)	-22%
External Mgt Fees Paid Directly	23,504,160	26,576,516	13%	30,810,371	4,233,855	16%
Custodian Fees and other direct costs	1,226,918	1,536,676	25%	2,356,175	819,499	53%
Performance Measurement	385,900	500,478	30%	621,169	120,691	24%
Analytical Tools	299,810	267,018	-11%	289,570	22,553	8%
Risk Measurement	575,000	371,667	-35%	803,121	431,454	116%
Custodian and Analytical Costs	2,487,628	2,675,838	8%	4,070,035	1,394,197	52%
Cambridge Fees	900,000	900,000	0%	1,100,000	200,000	22%
Auditing	190,300	191,309	1%	213,920	22,611	12%
Consulting	0			0	0	
Controls Assessment (SOX)	95,000	30,000	-68%	136,500	106,500	355%
Printing	120,000	132,196	10%	150,666	18,470	14%
Bank fees	9,000	8,234	-9%	6,000	(2,234)	-27%
Rating agency fees	23,500	22,322	-5%	0	(22,322)	-100%
Legal Fees	345,750	938,381	171%	555,000	(383,381)	-41%
Background Searches & Other	20,900	25,412	22%	67,200	41,788	164%
Other Directs Total	1,704,450	2,247,854	32%	2,229,286	(18,568)	-1%
Total Direct Costs to Funds	27,696,238	31,500,208	14%	37,109,691	5,609,483	18%
Total for Recurring Operations	\$ 38,146,853	\$ 41,585,073	9%	\$ 48,543,993	\$ 6,958,920	17%

* Actual expenses as of 5/31/05

** Includes Centralized Operating Funds Expenses

EXHIBIT B

Centralized Operating Fund Expenses

Centralized Fund Positions:	
<i>Client Services Manager*</i>	
<i>Manager Core Fund Investments</i>	
<i>Risk Management Associate</i>	
<i>Core Fund Analyst</i>	
<i>Operating Funds Sr. Accountant</i>	
<i>Operations Associate</i>	
Subtotal UTIMCO Services Salaries	\$ 470,833
Direct Costs to Funds:	
External Manager Fees	5,706,281
Custodian Fees	569,243
Performance Measurement	115,369
Risk Measurement	157,121
Cambridge Fees	200,000
Auditing	37,620
Printing	5,250
Legal Fees	15,000
Background Searches & Other	21,000
Subtotal Direct Costs to Funds	\$ 6,826,884
Cost Savings from Centralization of Operating Funds, reflected in Direct Costs to Funds Budget:	
Controls Assessment (SOX)	(13,500)
Rating Agency Fees	(23,100)
Subtotal Total Cost Savings	(36,600)
Total Budgeted Centralized Operating Fund Estimated Expenses (Direct costs to Funds + Centralized Fund Positions)	\$ 7,261,117
Assets associated with Centralized Operating Funds	\$3.7 billion
As a Percent of Assets Managed	.20%
Budgeted/authorized but Unfilled Positions at 6/30/05:	
<i>MD Inflation Hedging</i>	
<i>Sr Associate (Non Marketable Alternatives)</i>	
<i>Analyst (Public Markets)</i>	
<i>Analyst (Inflation Hedging)</i>	
Total Salaries	\$ 305,000

**Client Service Manager position is budgeted currently but not filled pending approval of Centralized Operating Funds*

EXHIBIT C

	UTIMCO Operating Expenses FY02 - FY06									
	FY02	FY03	FY04	FY05			FY06	Change from FY05		
	Actual	Actual	Actual	Budget	Projected	% +/-	Proposed Budget**	\$	%	
UTIMCO Services Direct Costs to Funds (Including Centralized Operating Funds)										
Salaries and Wages + vac	2,287,533	3,102,883	3,773,961	4,780,040	4,326,359	-9%	5,463,555	1,137,196	26%	
Bonus Compensation + int.	239,622	1,089,333	1,858,653	1,704,253	1,751,742	3%	1,778,784	27,042	2%	
Total Compensation	2,527,155	4,192,216	5,632,614	6,484,293	6,078,101	-6%	7,242,340	1,164,239	19%	
Total Payroll taxes	145,492	195,076	206,777	293,831	291,698	-1%	345,516	53,818	18%	
Employee Benefits	314,450	425,478	545,316	804,212	754,556	-6%	952,180	197,624	26%	
Total General Operating	656,291	1,112,169	984,909	1,331,919	1,223,082	-8%	1,564,454	341,372	28%	
Total Lease Expense	604,683	606,013	599,047	592,510	645,179	9%	307,212	(337,967)	-52%	
Legal Expenses	242,533	500,823	183,102	175,000	461,567	164%	175,000	(286,567)	-62%	
Compensation Consultant		45,200	108,397	25,000	39,500	58%	25,000	(14,500)	-37%	
Accounting fees	6,630	6,870	12,910	9,500	40,000	321%	25,000	(15,000)	-38%	
Total Professional Fees	249,358	554,893	304,409	209,500	541,067	158%	225,000	(316,067)	-58%	
Total Insurance	197,535	234,068	258,678	278,350	270,605	-3%	261,700	(8,905)	-3%	
Depreciation of Equipment	271,692	286,176	261,894	456,000	280,576	-38%	535,900	255,324	91%	
Total UTIMCO Services	4,966,655	7,606,089	8,793,644	10,450,615	10,084,864	-3%	11,434,302	1,349,438	13%	
Direct Costs to Funds Direct Costs to Funds (Including Centralized Operating Funds)										
External Mgt. Fees - Centralized Operating Funds							5,706,281	5,706,281	100%	
External Mgt. Fees - Direct	10,968,493	10,699,801	12,715,126	15,043,557	13,278,224	-12%	14,712,719	1,434,495	11%	
External Mgt. Performance Fees	3,899,937	4,467,459	9,165,879	8,460,603	13,298,292	57%	10,391,371	(2,906,921)	-22%	
External Mgt Fees Paid Directly	14,868,430	12,314,265	21,881,005	23,504,160	26,576,516	13%	30,810,371	4,233,855	16%	
Custodian Fees and other direct costs	1,179,087	1,351,899	1,043,993	1,226,918	1,536,676	25%	2,356,175	819,499	53%	
Performance Measurement	231,413	261,625	463,238	385,900	500,478	30%	621,169	120,691	24%	
Analytical Tools			218,172	299,810	267,018	-11%	289,570	22,553	8%	
Risk Measurement	361,460	335,172	120,000	575,000	371,667	-35%	803,121	431,454	116%	
Custodian and Analytical Costs	1,771,960	1,948,696	1,845,403	2,487,628	2,675,838	8%	4,070,035	1,394,197	52%	
Cambridge Fees	2,797,487	1,477,800	900,000	900,000	900,000	0%	1,100,000	200,000	22%	
Auditing	158,371	168,202	205,000	190,300	191,309	1%	213,920	22,611	12%	
Controls Assessment (SOX)				95,000	30,000	-68%	136,500	106,500	355%	
Printing	91,246	99,583	111,431	120,000	132,196	10%	150,666	18,470	14%	
Bank fees	7,289	7,605	12,036	9,000	8,234	-9%	6,000	(2,234)	-27%	
Rating agency fees	21,876	21,508	22,008	23,500	22,322	-5%	0	(22,322)	-100%	
Legal Fees	267,880	343,849	517,868	345,750	938,381	171%	555,000	(383,381)	-41%	
Background Searches & Other	51,387	1,540	11,490	20,900	25,412	22%	67,200	41,788	164%	
Other Direct Costs Total	3,395,536	2,120,087	1,779,833	1,704,450	2,247,854	32%	2,229,286	(18,568)	-1%	
Total Direct Costs to Funds	20,102,705	16,048,173	25,506,242	27,696,238	31,500,208	14%	37,109,691	5,609,483	18%	
Total for Recurring Operations	25,069,360	23,654,262	34,299,886	38,146,853	41,585,073	9%	48,543,993	6,958,920	17%	

* Actual expenses as of 5/31/05
 ** Includes Centralized Operating Funds Expenses

EXHIBIT D

FY06 Capital Budget: Moving and IT Costs

Relocation Costs

Construction Costs	\$ 420,582
Soft Costs (Engineering, Permits, and Structural)	119,870
Estimated Furniture Costs	485,000
Moving Costs	45,000
Project Management Costs	54,000
Project Contingency	<u>192,000</u>

Subtotal Relocation \$ 1,316,452

Planned Technology Upgrades² \$ 366,000

Total Capital Purchases \$ 1,682,452

²Information Technology Capital Investments:

One Time Upgrades	Cost	Annual Depreciation
Cisco Wifi	11,000	2,200
Altigen Replacement and Upgrade to Latest version.	25,000	5,000
APC Racks and UPS	55,000	11,000
Cisco Routers	120,000	24,000
Annual On-going Needs		
Desktop / Laptop Rotation	60,000	12,000
Software	20,000	4,000
Other Purchases		
Blackberry Server and Software	15,000	3,000
Phase II - SAN Environment	60,000	12,000
Total Information Technology Request	\$ 366,000	\$ 73,200

8. **U. T. System Board of Regents: Approval of revised Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO) and approval of distribution of reserves to investment accounts**

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel recommend that the U. T. System Board of Regents approve the revised Investment Management Services Agreement to be effective September 1, 2005, as set forth on Pages 14.1 - 14.17.

The Chancellor and the Executive Vice Chancellor for Business Affairs also recommend that the Board of Regents direct UTIMCO to distribute \$4.0 million of Surplus Cash Reserves back to the investment accounts in the same proportion that the accounts contributed to Cash Reserves, as provided for in the Investment Management Services Agreement.

BACKGROUND INFORMATION

The Investment Management Services Agreement has been revised to (a) conform to new Sections 552.0225 and 552.143 of the *Texas Government Code* regarding Right of Access to Investment Information and Confidentiality of Certain Investment Information; (b) make certain revisions to the provisions regarding distribution of surplus UTIMCO Cash Reserves to the investment accounts; (c) make other housekeeping changes.

The proposed changes were reviewed by UTIMCO's outside legal counsel, Vinson & Elkins; U. T. System's outside counsel, Baker Botts, LLP; and the Office of General Counsel of the U. T. System. The revised agreement, if approved, will be submitted to the UTIMCO Board of Directors for approval.

Analysis supporting the recommended distribution is included in the Office of Finance staff review of the UTIMCO proposed budget as shown in Table 4 on Page 13.14.

INVESTMENT MANAGEMENT SERVICES AGREEMENT

This Investment Management Services Agreement (this "Agreement") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas nonprofit corporation, is effective September 1, 2005~~August 12, 2004~~ (the "Effective Date"), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO regarding the subject matter hereof, ~~effective November 16, 2000.~~

RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional funds of the U. T. System and the funds of various trusts and foundations for which it serves as trustee, all of which funds are under the control and management of the U. T. Board;

WHEREAS, Section 66.08, *Texas Education Code*, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U. T. Board, as designated by the U. T. Board;

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 *et seq.*, for the express purpose of investing funds under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated funds under the control and management of the U. T. Board;

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, *Texas Education Code*, as amended.

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

Section 1. Definitions.

Accounts shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

Available University Fund or AUF shall mean the fund that consists of the distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

Affiliate shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.

Cash Reserves shall mean cash on hand plus investments, plus prepaid expenses, less accounts payable, less other liabilities.

Claims shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.

Custodian or Custodians shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safekeep physical securities representing investment assets of any Account and to perform the other functions listed in Section 5 hereof.

General Endowment Fund or GEF shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

Indemnified Parties shall mean UTIMCO and any of its officers, directors, employees and agents.

Investment Policies shall mean the written investment policies determined and approved by the U. T. Board relating to the Permanent University Fund, General

Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, Short Intermediate Term Fund and the Short Term Fund. Amendments may be presented by UTIMCO to the U. T. Board for review and approval.

Long Term Fund or **LTF** shall mean the long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of ~~component~~—institutions of the U. T. System.

Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

Permanent Health Fund or **PHF** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, *Texas Education Code*, for which the U. T. Board is an administrator.

Permanent University Fund or **PUF** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

Permanent University Fund Lands or **PUF Lands** shall mean approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the Permanent University Fund.

Separately Invested Funds or **SIFs** shall mean U. T. System Funds or U. T. Board Trust accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF.

Short Intermediate Term Fund or **SITF** shall mean the short intermediate term pooled investment fund previously established by the U. T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the ~~component~~—institutions of the U. T. System.

Short Term Fund or **STF** shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds.

Surplus Cash Reserves shall mean Cash Reserves on the last day of the fiscal year in excess of twenty-five percent (25%) of the upcoming fiscal year's projected operating budget plus approved capital expenditures budgeted for the upcoming fiscal year.

U. T. Board Accounts shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

U. T. Board Trust Accounts shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries.

U. T. System Funds shall mean all funds under the control and management of the U. T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts.

Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

The U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Accounts, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Accounts in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as covered by this Agreement and shall manage each Account as a discretionary account.

The U. T. Board, as ultimate fiduciary for the Accounts, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information), intergovernmental relations, ~~and policy issues other than those associated with investment allocation and/or return, and other matters arising out of UTIMCO's activities as investment manager under this Agreement that implicate policies of the U. T. Board other than investment policy.~~ The Board of UTIMCO and the President of UTIMCO shall be responsible for implementing the investment policy of the U. T. Board and performing those core investment duties delegated above. It shall be the responsibility of the President of UTIMCO to inform the Chancellor of unresolved policy issues not governed by the Investment Policies immediately so that appropriate oversight and management can be provided by the Chancellor. UTIMCO hereby agrees to abide by such oversight and management decisions made by the Chancellor.

The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Accounts:

- a) **Investment Policies:**
UTIMCO shall review current investment policies for each Account, including without limitation policies concerning Asset Allocation, Liquidity, Proxy Voting, and Derivatives, at least annually by June 1 of each year. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, and designated performance benchmarks for each asset class. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff with adequate time for review prior to being submitted to the U. T. Board for review and approval.~~for discussion during an annual Joint Meeting between the U. T. Board and the UTIMCO Board of Directors.~~
- b) **Investment Management:**
UTIMCO shall oversee the investment management process. Such oversight shall include the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.
- c) **Investment Performance:**
UTIMCO shall monitor and report on investment performance for the PUF, PHF and U. T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U. T. Board Trust Accounts as requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.
- d) **Operations:**
UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.
- e) **Maintenance of and Access to Books and Records:**
UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Account.

The books and records of the Accounts and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by an authorized representative of U. T. System. UTIMCO shall provide full audit access to any and all information concerning the operations of UTIMCO, including information necessary to review UTIMCO expenditures for compliance and reasonableness with the approved budget, to auditors representing the U. T. Board or the State Auditor.

f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, the chief executive officer and the chief financial officer of UTIMCO shall provide certifications similar to those required by Section 302 of the Sarbanes-Oxley Act of 2002, Corporate Responsibility for Financial Reports. UTIMCO will follow the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional Compliance, as may be amended, including providing the U. T. Board or its designee with quarterly compliance reports.

g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Accounts, ~~the following information shall be disclosed~~ UTIMCO shall disclose to the public with respect to such private investments all information required to be disclosed pursuant to Section 552.0225 of the Texas Government Code regarding "Right of Access to Investment Information" ("private investment information"). ~~the name and purpose of each private investment entity; the names of the individual principals managing such private investment; the amount invested by UTIMCO in such private investments; the investment returns for such private investment, including internal rates of return; and remaining value information.~~ UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO has have clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the President of UTIMCO shall ~~consult with~~ notify the U. T. System Vice Chancellor and General Counsel and solicit his or her input to the process. UTIMCO shall disclose the information unless it is confidential and excepted as provided in Section 552.143 of the Texas Government Code regarding "Confidentiality of Certain Investment Information" or the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas. In addition, the U.T. Board reserves the right and authority, in its sole discretion, to disclose, or direct the disclosure of, any information at any time, to the extent such disclosure would not result in a violation of applicable law or breach or result in a default under any agreement binding upon UTIMCO or the U. T. Board.

h) **Other Services:**

UTIMCO shall perform other investment management services including but not limited to 1) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, 2) attending an annual Joint Meeting between the UTIMCO Board of Directors and the U. T. System Board of Regents as referenced in Article III, Section 7 of the UTIMCO Bylaws, 3) rendering services to managers of private equity investments in which UTIMCO has decided to invest, 4) attending meetings of governing bodies of companies in which UTIMCO's managed Accounts have invested, 5) voting of securities (or proxies with respect thereto) held as investments of the Accounts according to written policies of the U. T. Board; 6) providing U. T. System ~~component~~—institutions with annual endowment reports reflecting, among other things, changes in the investment value of such ~~component~~ institution's endowment and distributions made to such ~~component~~ institution to support the activities for which the endowment was established; 7) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; 8) effecting distributions directly or through the Custodian to U. T. System ~~component~~—institutions or other named beneficiaries from the Accounts; 9) supporting and maintaining on-line account information system for endowment accounts; and 10) any other services necessary to provide investment management of the Accounts.

Section 4. Investment Manager as Fiduciary; Training and Education.

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of the Accounts subject to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

UTIMCO agrees to provide training and education to members of the UTIMCO Board of Directors to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully.

Section 5. Custody of Assets.

UTIMCO shall use custodians for safekeeping, settlement of security purchases, sales, collection of income and other duties as more fully described in the existing custody agreement between UTIMCO and the Custodian, which agreement, together with the U. T. Board's rights, duties and obligations thereunder, has been assigned to UTIMCO. In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Accounts and to perform other duties.

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

a) Annual Budget and Management Fee:

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Accounts. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the Accounts, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Accounts. Items proposed in the Annual Budget and the allocation formula may be approved, disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (determined in accordance with the

allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO may, with the approval of the U. T. Board, revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account.

b) **Directors Fees:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

c) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Accounts managed by UTIMCO. Such Capital Fees shall be credited to the Accounts from which such investments are funded.

d) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for accounts that are separately invested for which UTIMCO receives a fee from the account. These fees primarily relate to maintenance of computer programs for the separately invested accounts. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

e) **Cash Reserves:-**

~~Surplus Cash Reserves are defined as Cash Reserves on the last day of the fiscal year in excess of 1/4 of the upcoming fiscal year's projected operating budget. Within 90 days after the end of each fiscal year-2004, UTIMCO will distribute back to the Accounts which generated the surplus \$4 million that portion of the Surplus Cash Reserves as may be directed by the U. T. Board, in its sole discretion, from time to time. back to the Accounts, which generated the surplus~~

Such distribution back to the Accounts shall be in the same proportion that the Accounts contributed to the Cash Reserves. In future fiscal years, the U. T. Board may direct UTIMCO to make additional distributions to the Accounts from Surplus Cash Reserves.

Section 8. Brokerage Commissions.

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Accounts; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO. All orders for Account transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO, from time to time and in accordance with applicable law, may pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Accounts.

Section 9. Valuation of Account Assets.

The valuation of the account shall be determined in accordance with the Investment Policies approved by the U. T. Board for the account.

Section 10. Representations and Warranties of Parties.

U. T. Board.

- A. The U. T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U. T. Board is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will

be necessary for the valid execution, delivery or performance by the U. T. Board of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of the U. T. Board.
- E. There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- F. The U. T. Board has approved:
 - (1) the Articles of Incorporation and Bylaws of UTIMCO;
 - (2) the Investment Policies;
 - (3) the Audit and Ethics committee of UTIMCO; and
 - (4) the Code of Ethics of UTIMCO.
- G. The U. T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

UTIMCO.

- A. UTIMCO (a) is duly organized and validly existing as a Texas nonprofit corporation under the laws of the State of Texas, particularly the Texas Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 *et seq.*, (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will

be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of UTIMCO.
- E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements.

In the performance of this Agreement, UTIMCO's Directors, Officers, and Employees shall abide by the following policies:

- a) UTIMCO Code of Ethics as approved by the U. T. Board
- b) UTIMCO Bylaws as approved by the U. T. Board
- c) All UTIMCO policies
- d) Applicable portions of Regents' *Rules and Regulations*.

Financial advisors and service providers as defined in *Texas Government Code* Section 2263.002 shall comply with the disclosure requirements contained in *Texas Government Code* Section 2263.005.

Section 12. UTIMCO's Open Meeting Policy.

Except as otherwise provided in Section 66.08, *Texas Education Code*, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the *Texas Government Code*.

Section 13. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, *Texas Education Code*, UTIMCO shall not engage in any business other than managing the Accounts under this Agreement.

Section 14. Investment Company Act and State Securities Act.

The parties to this agreement acknowledge that UTIMCO shall not be required to register as an "investment company" under Title 15 *United States Code* Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 *et seq.* (The Securities Act).

Section 15. Termination.

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to the effective date of termination.

Section 16. Amendments.

No amendment hereto shall be effective unless executed in the same manner as this Agreement.

Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered and receipted to the other party, or sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the addressed party. The following are the designated addresses for such notices or communications and may only be changed by communication in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System
Attn: Counsel and Secretary
201 West Seventh Street, Suite 820
Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St., Suite 1700
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1660

Section 18. Non-Assignability.

No Assignment of this Agreement by UTIMCO shall be made without having obtained the prior written consent of the U. T. Board nor is the Agreement assignable by the U. T. Board.

Section 19. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20. Indemnification.

a) **Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of

such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

f) **Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

Section 21. Claims By and Against Managed Funds.

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the U. T. Board from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board or to settle contested claims or litigation that may result in UTIMCO receiving less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate System officials, as set out in the Regents' *Rules and Regulations*.

Section 22. Communications.

UTIMCO and U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the President and CEO of UTIMCO.

Section 23. Authority to Purchase, Exchange, and Sell Securities.

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

Section 24. Authority to Assign and Transfer Securities.

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

Section 25. Governing Law.

This Agreement and all matters arising under it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

**BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM**

Date: _____

By _____
Chairman

**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT
COMPANY**

Date: _____

By _____
Chairman

9. **U. T. System Board of Regents: Approval to amend the Permanent University Fund and General Endowment Fund Investment Policy Statements including asset allocation**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs recommend that the U. T. System Board of Regents approve proposed amendments to the following Investment Policy Statements, including asset allocation, as set forth on the referenced pages:

- a. Permanent University Fund (PUF) (See Pages 16.1 – 16.16)
- b. General Endowment Fund (GEF) (See Pages 16.7 – 16.30)

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated August 12, 2004, between the Board of Regents of the University of Texas System and The University of Texas Investment Management Company (UTIMCO) provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. System Board of Regents. No proposed amendments to the Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, Separately Invested Accounts, and Short Term Fund Investment Policy Statements are being recommended at this time.

The amended Investment Policy Statements for the Permanent University Fund (PUF) and General Endowment Fund (GEF) were approved by the UTIMCO Board on July 21, 2005, provided that certain changes were made. The attached documents incorporate these changes and also add an amendment to require that the Board of Regents review and approve the Derivatives Policy.

Based on the completion of UTIMCO staff's work with Cambridge Associates and other external consultants, the UTIMCO Board recommends the adoption of new asset allocation policy portfolios for the PUF and the GEF. In addition to minor editorial changes, amendments to the PUF and GEF Investment Policy Statements revise the asset allocation, including proposed changes in the policy portfolio asset classifications, targets, ranges, and benchmarks, as summarized below:

- Modify policy ranges to avoid having targets that are at the upper or lower end of a range. (Policy range maximums increase for total hedge funds from 25% to 30%, for private capital from 15% to 20%, and for commodities from 5% to 6%; range minimum for fixed income decreases from 10% to 5%. Targets in each case remain unchanged.)
- Remove REITS from the U. S. Equities asset class and include under new Inflation Linked asset class.

- Provide definitions for Non-U.S. Developed Equity and Emerging Markets Equity, sub-asset classes for Global ex-U.S. Equities.
- Change a sub-asset class of Hedge Funds from Equity Hedge Funds to Directional Hedge Funds. Clarify what is included in this asset class.
- Add Inflation Linked Asset class, which will include REITS, Commodities and TIPS.
- Eliminate TIPS as a sub-asset class of Fixed Income. TIPS will now be included under Inflation Linked assets.
- Edit general investment guidelines related to derivative language.
- Clarify timing of final determination of net asset values at each month end.
- Provide that UTIMCO CEO will determine the effective date for the revised Exhibit A – Policy Targets, Ranges and Performance Objectives, on or before November 1, 2005.
- Adjust policy portfolio targets for venture capital and private equity within the private capital asset class to be more in line with market opportunities. The target total for private capital investments remains unchanged at 15%.
- Modify benchmarks for U.S. Equities (to exclude the REIT component), Global ex U.S. Equities, Hedge Funds, and Commodities.

In accordance with the new Investment Performance Reporting Error Correction Policy, benchmark changes will be reflected in performance reporting on a forward basis only, with disclosure of the change and no restatement of benchmark history.

THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "PUF") is a public endowment contributing to the support of institutions of The University of Texas System (other than The University of Texas - Pan American and The University of Texas at Brownsville) and institutions of The Texas A&M University System (other than Texas A&M University-Corpus Christi, Texas A&M International University, Texas A&M University-Kingsville, West Texas A&M University, Texas A&M University-Commerce, Texas A&M University-Texarkana, and Baylor College of Dentistry).

PUF Organization

The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the "PUF Lands") located in 19 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

The expenditure of the AUF is subject to a prescribed order of priority:

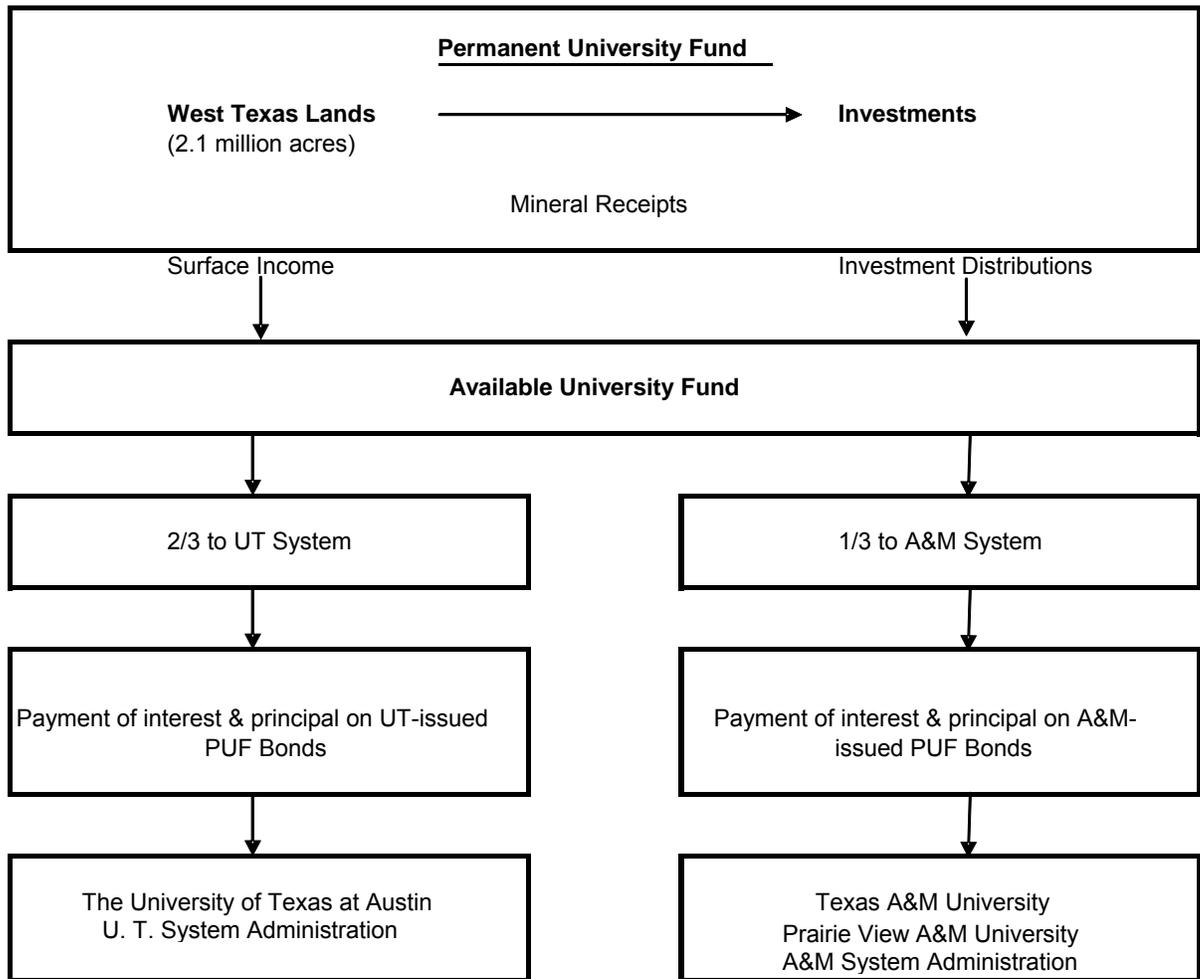
First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the Board of Regents and the Texas A&M University System Board of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the

preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

Second, expenditures to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university Systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



PUF Management

Article VII, Section 11b of the Texas Constitution assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific asset allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

PUF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PUF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

PUF Investment Objectives

The PUF and the General Endowment Fund (the “GEF”) are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund plus the annual expected expense. The current 5.1% target was derived by adding the PUF’s current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The PUF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be ~~established~~ maintained by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PUF’s asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

PUF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities – U.S. equities represent ownership in U.S. companies that are traded in public markets. ~~Traditional U.S. Equities~~ – ~~Traditional U.S. equities~~ include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, ~~exchange traded funds~~, and futures. In addition, derivative applications approved by the ~~UTIMCO Board~~ that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. ~~Traditional U.S. equities~~ provide both current income and capital gains.

REITS – ~~REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.~~

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non-U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures, are also included if the underlying assets are Global ex U.S. equities. In addition, derivative applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Directional Hedge Funds – Equity Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, and event driven strategies and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture capital investments consist of investments in companies, both U.S. and non-U.S. that are in the early stages of development. Venture Capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

- E. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include: Commodities – ~~Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments or direct investments.~~

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises and agencies, and domestic and foreign corporations. ~~Traditional Fixed Income~~—The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications approved by the UTIMCO Board that serve as a fixed income substitute ~~may~~ will be classified as traditional fixed income.

~~TIPS~~—TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

- G. Cash and Cash Equivalents – Cash and cash equivalents consist of internal and external pooled investment funds, money market funds, deposits of the Texas State Treasury, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the PUF, as indicated in Exhibit A.

Investment Guidelines

The PUF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of PUF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives ~~securities~~ to: a) simulate the purchase or sale of an underlying market index while retaining a collateral ~~cash~~ balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) ~~index or to~~ hedge risks associated with PUF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the PUF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining ~~the~~ permitted applications under which derivatives ~~securities~~ can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal ~~short-term~~-pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- Deposits of the Texas State Treasury.
- The PUF's custodian late deposit interest bearing liquid investment fund.
- Municipal short-term securities
- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ~~Bankers' acceptances guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.~~
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a repurchase agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
 - All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the PUF's fixed income assets.
- Overnight repurchase agreements may not exceed 25% of the PUF's fixed income assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

~~Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U.S. Treasury, U.S. Government Sponsored Enterprises, or U.S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:~~

- Permissible securities for investment include securities within the components categories of the Lehman Brothers Aggregate Bond Index (LBAGG); These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors:
1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible:
a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- ~~Not more than 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.~~
- ~~Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.~~
- Not more than 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.
- Not more than 15% of the PUF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The PUF shall:

- ~~A.~~• hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- ~~B.~~• hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's chief investment officer.

PUF Distributions

The PUF shall balance the needs and interests of present beneficiaries with those of the future. PUF spending policy objectives shall be to:

- A.—provide a predictable, stable stream of distributions over time;

- B.—ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C.—ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

The goal is for the PUF's average spending rate over time not to exceed the PUF's average annual investment return after inflation and expenses in order to preserve the purchasing power of PUF distributions and underlying assets.

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued under this section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund."

Annually, the Board of Regents will approve a distribution amount to the AUF.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing twelve quarter average of the net asset value of the PUF for the quarter ending February of each year.

Following approval of the distribution amount, distributions from the PUF to the AUF may be quarterly or annually at the discretion of UTIMCO Management.

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with

Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's chief investment officer and reported to the UTIMCO Board of Directors. The PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the PUF's net assets shall include all related receivables and payables of the PUF on the valuation. Such valuation shall be final and conclusive.

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the PUF shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the PUF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System and shall not invest the PUF so

as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be ~~August 12, 2004~~ August 11, 2005, except for Exhibit A, ~~which was effective January 1, 2004.~~ Effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date shall be determined by UTIMCO's Chief Investment Officer and notification to the Chairmen of the UTIMCO Board and the Board of Regents shall occur prior to the effective date.

CURRENT EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	20.0	10 to 30	Russell 3000 Index
Global ex US Equities	17.0	10 to 30	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	25.0	15 to 30	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	15.0	5 to 20	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	13.0	5 to 20	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income:	10.0	5 to 15	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 10	90 Day T-Bills

Expected Annual Return (%)	8.34
1 yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

**THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT**

Purpose

The General Endowment Fund (the "GEF"), established by the Board of Regents of The University of Texas System (the "Board of Regents") March 1, 2001, is a pooled fund for the collective investment of certain long-term funds under the control and management of the Board of Regents. The GEF provides for greater diversification of investments than would be possible if each account were managed separately.

GEF Organization

The GEF functions like a mutual fund in which each eligible fund purchases and redeems GEF units as provided herein. The ownership of GEF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

GEF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Ultimate fiduciary responsibility for the GEF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the GEF shall be managed by UTIMCO, which shall

a) recommend investment policy for the GEF, b) recommend specific asset allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

GEF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of GEF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase GEF Units

No fund shall be eligible to purchase units of the GEF unless it is under the sole control, with full discretion as to investments, of the Board of Regents and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the GEF.

Currently, the Long Term Fund (the "LTF") and the Permanent Health Fund (the "PHF") purchase units in the GEF.

GEF Investment Objectives

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) plus the annual expected expense. The current 5.1% target was derived by adding the PUF's current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The GEF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower

returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be maintained~~established~~ by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect GEF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

GEF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets. ~~Traditional U.S. Equities~~ Traditional U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, ~~exchange traded funds~~, and futures. In addition, derivative applications ~~approved by the UTIMCO Board~~ that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. ~~Traditional U.S. equities provide both current income and capital gains.~~

~~REITS — REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.~~

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stock, including warrants, rights, options, ~~exchange traded funds, and futures,~~ are also included if the underlying assets are ~~Global ex U.S. equities~~. In addition, derivative applications ~~approved by the UTIMCO Board~~ that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority

of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Directional Hedge Funds – Equity Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, and event driven strategies and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private

placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture Capital investments consist of investments in companies, both U.S. and non-U.S., that are in the early stages of development. Venture capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

- E. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include: Commodities – ~~Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.~~

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S.

inflation protected fixed income securities as well as nominal fixed income securities.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises, and agencies and domestic and foreign corporations. ~~Traditional Fixed Income~~ – The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications approved by the UTIMCO Board that serve as a fixed income substitute ~~may~~ will be classified as traditional fixed income.

~~TIPS – TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.~~

- G. Cash and Cash Equivalents – Cash and cash equivalents consist of internal and external pooled investment funds, ~~money market funds~~, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the GEF, as indicated in Exhibit A.

Investment Guidelines

The GEF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of GEF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the GEF's tax exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivatives ~~securities~~ to: a) simulate the purchase or sale of an underlying market index while retaining a collateral~~cash~~ balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) ~~index or to~~ hedge risks associated with GEF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining ~~the~~ permitted applications under which derivatives ~~securities~~ can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal ~~short term~~ pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- The GEF's custodian late deposit interest bearing liquid investment fund.

• Municipal short-term securities.

- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ~~Bankers' acceptances guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.~~
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a repurchase agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
 - All collateral shall be delivered to the GEF custodian bank. Tri-party collateral arrangements are not permitted.
 - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the GEF's fixed income assets.
 - Overnight repurchase agreements may not exceed 25% of the GEF's fixed income assets.
- Mortgage Backed Securities (MBS) ~~D~~dollar ~~R~~olls shall be executed as matched book transactions in the same manner as reverse repurchase

agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

~~Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U.S. Treasury, U.S. Government Sponsored Enterprises, or U.S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:~~

Permissible securities for investment include securities within the components categories of the Lehman Brothers Aggregate Bond Index (LBAGG). These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors: 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better, by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- ~~Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.~~

Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.
- Not more than 15% of the GEF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The GEF shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's chief investment officer.

GEF Accounting

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's chief investment officer and reported to the UTIMCO Board of Directors. The GEF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. The final determination of GEF net assets for a month end close shall normally be completed within five business days but

determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the GEF's net assets shall include all related receivables and payables of the GEF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of GEF Units

Purchase of GEF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the GEF or contribution of assets approved by UTIMCO's chief investment officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

Redemption of GEF Units

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined ~~for the period~~ at the time of the withdrawal.

Securities Lending

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the GEF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies

in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unitholders and shall not invest the GEF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be ~~August 12, 2004~~ August 11, 2005, except for Exhibit A, ~~which was effective January 1, 2004.~~ The effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date shall be determined by UTIMCO's Chief Investment Officer and notification to the Chairmen of the UTIMCO Board and the Board of Regents shall occur prior to the effective date.

CURRENT EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	20.0	10 to 30	Russell 3000 Index
Global ex US Equities	17.0	10 to 30	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	25.0	15 to 30	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	15.0	5 to 20	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	13.0	5 to 20	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income:	10.0	5 to 15	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 10	90 Day T-Bills

Expected Annual Return (%)	8.34
1 yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

10. **U. T. System Board of Regents: Approval to amend The University of Texas Investment Management Company (UTIMCO) Liquidity Policy and the Derivative Investment Policy**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the proposed changes to the UTIMCO Liquidity Policy as set forth on Pages 17.1 – 17.5 and referenced in the Background Information of this item, and approve the UTIMCO Derivative Investment Policy on Pages 17.6 – 17.10.

BACKGROUND INFORMATION

Liquidity Policy

The proposed amendments to the Liquidity Policy were approved by the UTIMCO Board on July 21, 2005. The Liquidity Policy is being amended to reflect the name change of the Liquidity Committee to the Risk Committee, and to accommodate the proposed new asset allocations for the Permanent University Fund (PUF) and General Endowment Fund (GEF).

Acting on the recommendation of the Risk Committee, the UTIMCO Board voted to increase the maximum allowable illiquid investments from 30% to 35%, and to change the illiquid “trigger zone” from 20% -30% to 30% - 35%.

Derivative Investment Policy

The UTIMCO Board approved the proposed amendments to the Derivative Investment Policy on July 21, 2005. The purpose of the Derivative Investment Policy is to enumerate the applications, documentation, and limitations for investment in derivatives in the PUF and GEF. The Derivative Investment Policy supplements, but does not supersede, the Investment Policy Statements for the PUF and GEF. Although the Board of Regents has not formally approved the Derivative Investment Policy in the past, Investment Policy Statement guidelines for the PUF and GEF allow for investment in derivatives, provided that their use is in compliance with the Derivative Investment Policy.

The proposed amendments represent technical corrections to the current Policy, including removing Exchange Traded Funds from the definition of derivatives. Consistent with this change, the UTIMCO Board reduced the threshold for the total gross value of all internal derivative positions from 50% to 45% of the net asset value of the Funds.

The University of Texas Investment Management Company

Liquidity Policy

Effective Date of Policy: ~~August 11, 2005~~ ~~November 5, 2004~~
Original Effective Date of Policy: August 7, 2003

Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. For the purposes of this policy, “liquidity” is defined as a measure of the ability of an investment position to be converted into a cash position. The established liquidity profile limits will act in conjunction with, but do not supercede, the Investment Policies adopted by the U. T. System Board of Regents.

Objective:

The objective of this Liquidity Policy is to control the element of total risk exposure of the Funds stemming from the uncertainties associated with the ability to convert longer term investments to cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

Scope:

This Liquidity Policy applies to all PUF and GEF investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

“Liquidity risk” is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to cash (or cash equivalents). Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

Liquidity Risk Measurement-The Liquidity Profile:

Capital market theory does not provide a precise technique to measure liquidity risk. For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Funds. All individual investments within the Funds will be segregated into two categories:

- **Liquid:** Investments that could be converted to cash within a period of one day to three months in an orderly market at a discount of 10% or less.
- **Illiquid:** Investments that could be converted to cash in an orderly market over a period of more than three months or in a shorter period of time by accepting a discount of more than 10%.

The measurements necessary to segregate all investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the

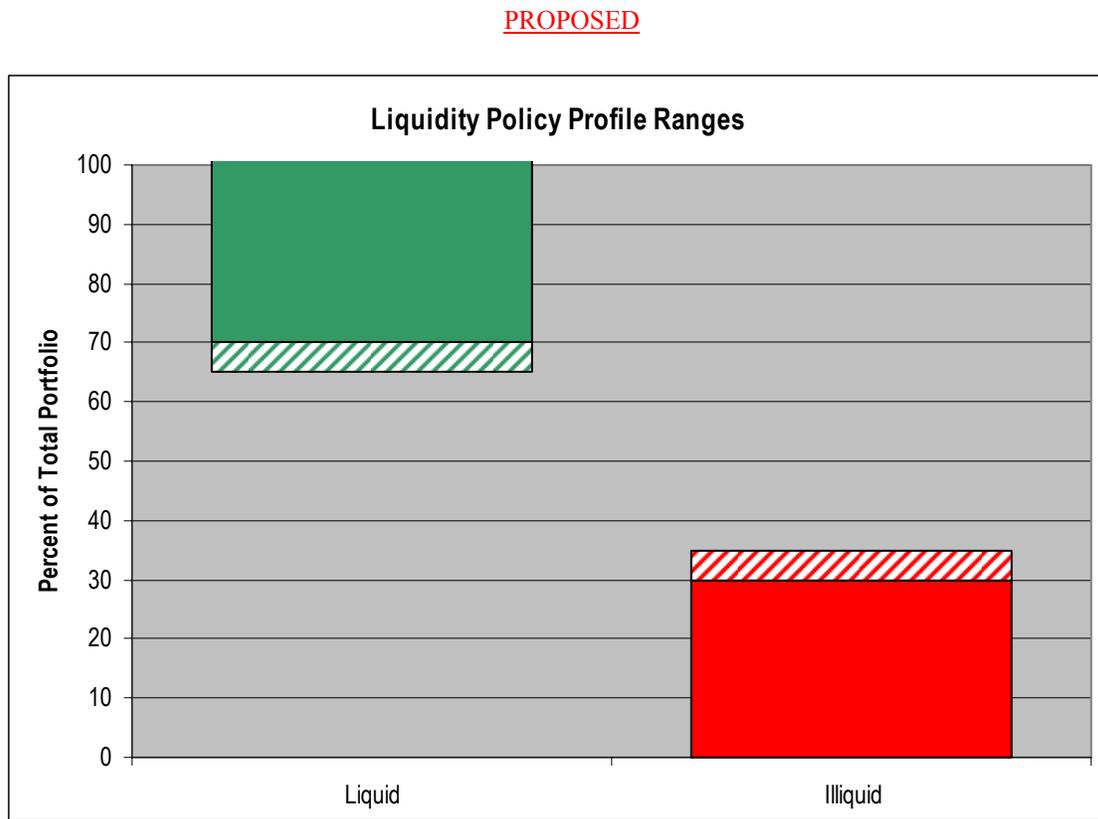
The University of Texas Investment Management Company Liquidity Policy

prior approval of the UTIMCO Board or the [Risk-Liquidity Committee](#)¹, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Funds which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies “trigger zones” requiring special review by UTIMCO staff and Board, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

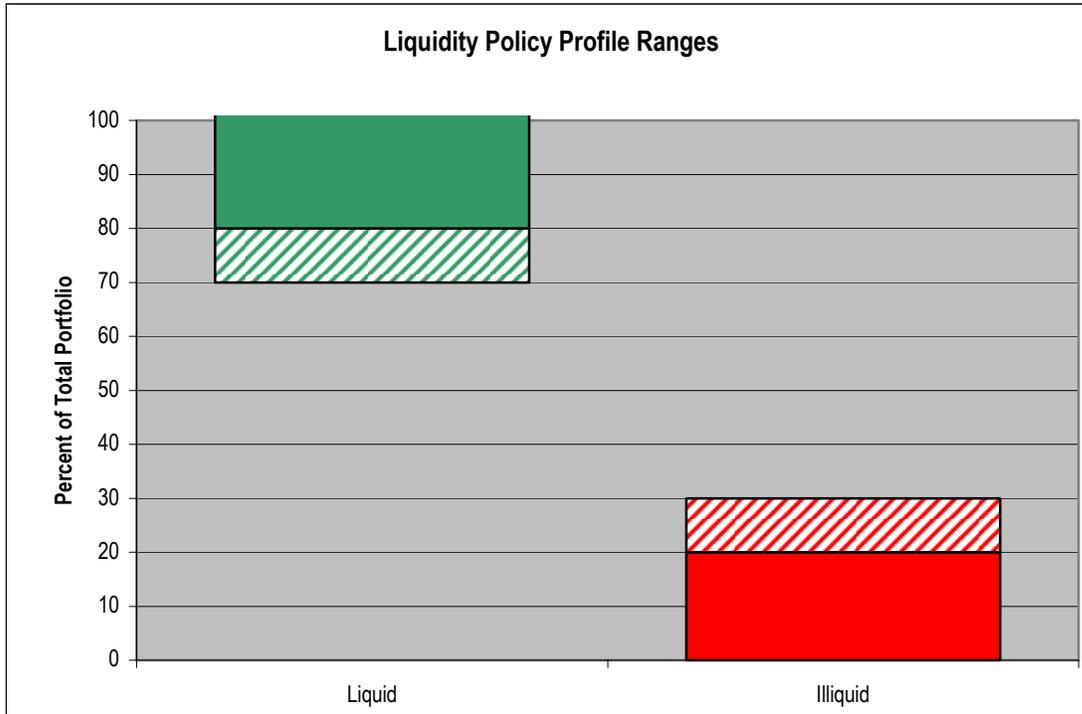
The current Liquidity Policy Profile ranges and trigger zones are defined by the chart below:



¹ The [Risk-Liquidity Committee \(formerly, the Liquidity Committee\)](#) was appointed by the UTIMCO Board of Directors and is subject to a [Risk-Liquidity Committee Charter](#) first approved by the UTIMCO Board of Directors on April 8, 2004. The [Risk-Liquidity Committee](#) consists of at least three members of the Board and provides oversight and monitoring of the liquidity of the policy portfolio in accordance with this Liquidity Policy.

**The University of Texas Investment Management Company
Liquidity Policy**

CURRENT



The green bar indicates the Policy range for investments categorized as “liquid” by the definition presented earlier. The red bar indicates the Policy range for investments categorized as “illiquid” by earlier definition. The shaded sections of the green and red bars indicate trigger zones requiring special action by the UTIMCO Board or the Risk Liquidity Committee. For example, the allowable range for illiquid investments is 0% to 30% of the total portfolio. However, any illiquid investments made in the 20% to 30% trigger zone requires prior approval by the Risk Liquidity Committee or the UTIMCO Board. Risk Liquidity Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that class. These classifications will be reviewed by the Risk Manager and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. The monthly liquidity reports will include certification by each Managing Director, the Risk Manager, the Chief Compliance Officer, and the President of UTIMCO, that all investments are properly categorized and reported. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Liquidity Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger

The University of Texas Investment Management Company

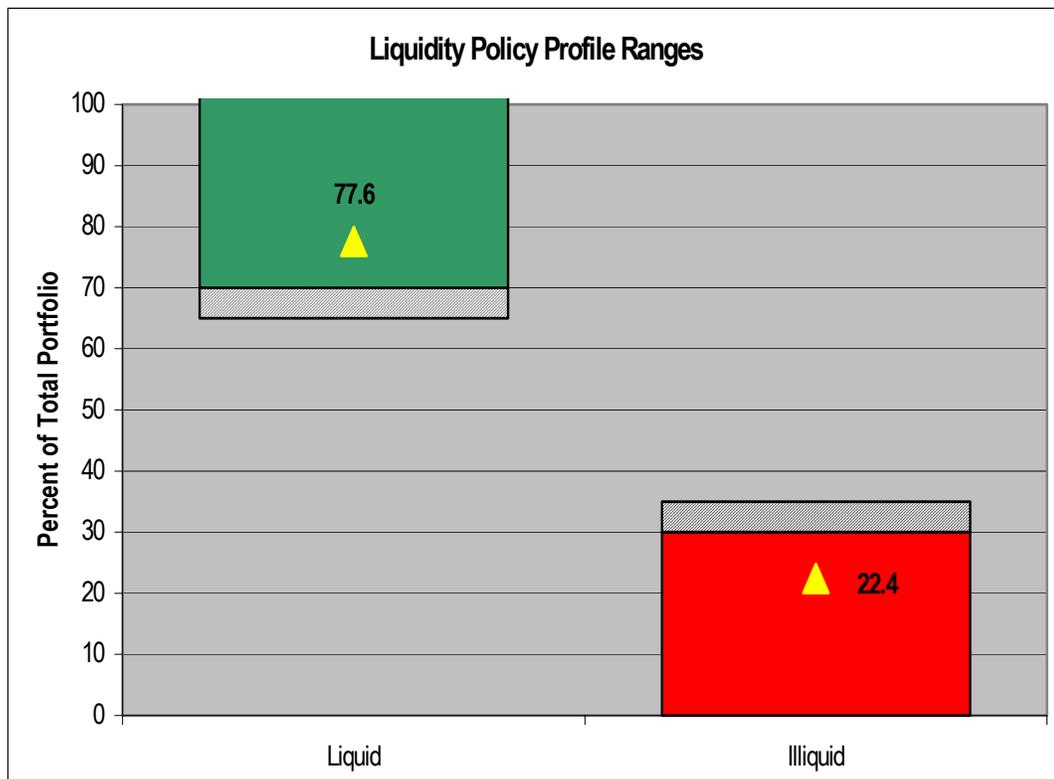
Liquidity Policy

zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in either the PUF or the GEF by 10% or more of the total asset value of either Fund would also require review and action by the UTIMCO Board or the RiskLiquidity Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the RiskLiquidity Committee the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

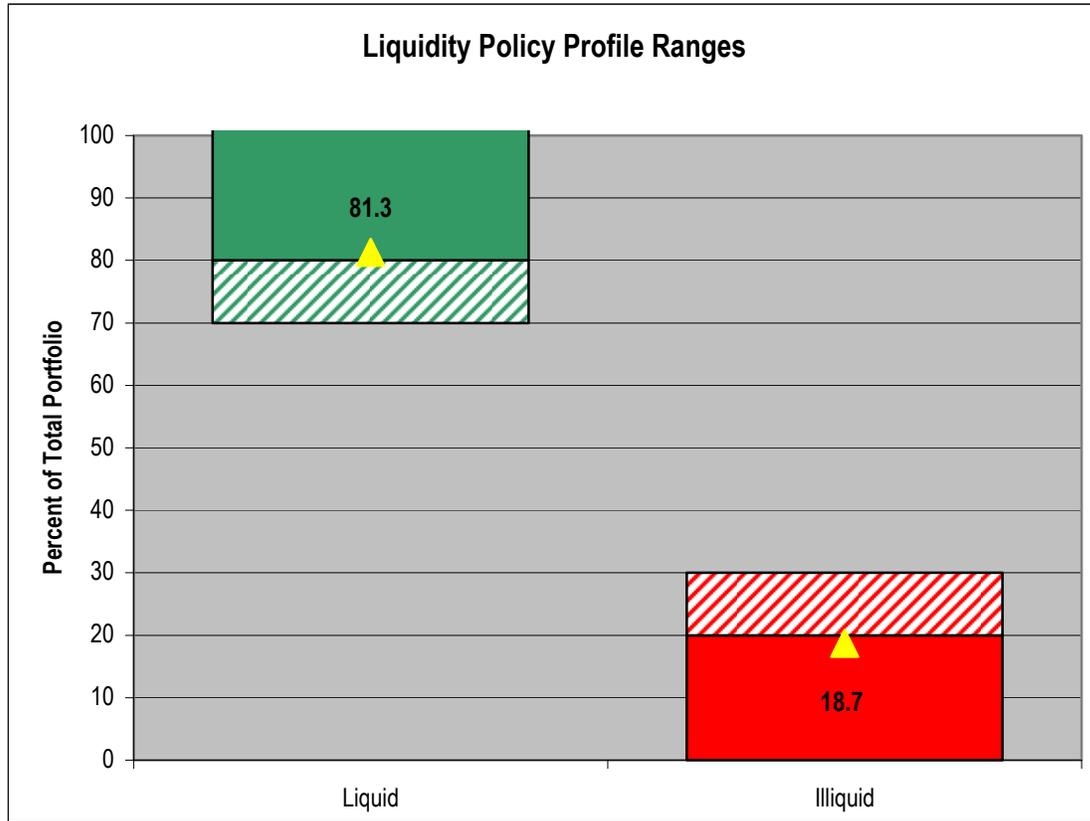
The actual liquidity profile of the Funds and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly. An example of the method of reporting is shown below where the yellow points and number labels indicate current actual exposure levels within each Liquidity Policy Range (numbers shown are examples only). For example, in this illustration the current exposure to “liquid” investments is 77.681.3%, while exposure to “illiquid” investments is 22.418.7% and both are within their respective allowable policy ranges and not in defined trigger zones.

PROPOSED



The University of Texas Investment Management Company Liquidity Policy

CURRENT



The University of Texas Investment Management Company

Derivative Investment Policy

Effective Date of Policy: ~~August 11, 2005~~July 15, 2004

Date Approved by UTIMCO Board: ~~July 21, 2005~~July 15, 2004

Purpose:

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivatives~~s~~ securities in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in derivatives~~s~~ securities provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statement for the Funds.

Objective:

The objective of investing in derivatives~~s~~ securities is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. Derivatives provide the Funds with the most economical means to improve the Funds risk/return profile.

Scope:

This Policy applies to internal management of derivatives at UTIMCO only. Derivatives policies for external managers are established on a case by case basis with each external manager, as described below. This Policy ~~applies to both exchange traded derivatives and over the counter derivative instruments. This Policy shall not be construed to apply to index or other common or commingled funds in which the Funds typically invest. These commingled investment vehicles are governed by separate investment policy statements.~~

External Managers:

An external investment manager of public market investments employed by UTIMCO may engage in derivative ~~security~~ transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use. Disclosure of permitted derivative applications with external investment managers of public market investments shall be made to UTIMCO's Board ~~prior to investment.~~

The due diligence process in the selection of managers of alternative marketable equities employed by UTIMCO requires a clear understanding of the managers use of derivatives, particularly as it relates to various risk controls and leverage. UTIMCO will invest in such strategies exclusively through limited partnership agreements, offshore corporations or other legal entities that limit the Funds' exposure to its investment in the strategy. Disclosure of derivative applications with alternative marketable equity managers shall be made to UTIMCO's Board ~~prior to investment.~~

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as a bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include futures contracts, forward contracts~~, exchange traded funds~~, swaps and all forms of options, but shall not include a broader range of securities including mortgage backed securities, structured notes and convertible bonds. (Refer to attached exhibit for glossary of terms)

The University of Texas Investment Management Company

Derivative Investment Policy

Permitted Derivative Applications:

Derivative applications may be used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds market (systematic) exposure without trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with cash market securities;
- To hedge and control risks so that the Funds' risk/return profile is more closely aligned with the Funds' targeted risk/return profile through purchases or short sales, or both, of appropriate derivatives; or
- To facilitate transition trading.

The primary intent of derivative ~~security~~ transactions should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market. Only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board. The Chief Investment Officer shall recommend and the UTIMCO Board approve any new derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application.

Derivative Applications Not Permitted:

Derivative applications shall not be used to invest in asset classes that are not consistent with the Funds policy asset categories, implementation strategies and risk/return characteristics.

Documentation and Controls:

Prior to the implementation of a new derivative application, UTIMCO shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including at a minimum modeling, pricing, liquidity and legal risks), the expected increase or reduction in systematic and specific risk resulting from the application, the acceptable criteria for counterparties in over the counter derivative applications, and the procedures in place to monitor and manage the derivative exposure. Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented. UTIMCO shall establish an appropriate risk management procedure to monitor compliance and will take corrective action if necessary. UTIMCO shall make a comprehensive report of all derivative applications to the UTIMCO Board on at least a quarterly basis.

Limitations:

Leverage is inherent in derivatives ~~securities~~ since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the cash markets, where in most cases the cash outlay is equal to the asset acquired, derivatives applications offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a derivatives application, which is the sum of the application-specific risk and the market (systematic) risk established by the derivative application. In order to control and limit the leverage risk, each derivative application must specify a baseline portfolio, and risk measures such as Value at Risk (VAR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% of the underlying value of the baseline portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivatives application.

As an additional global limitation, the total gross value (without netting counter positions) of all internal derivatives positions shall not exceed ~~4550~~% of the net asset value of the Funds.

The University of Texas Investment Management Company Derivative Investment Policy

In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter derivatives. The counterparty must be an investment grade credit and the agreement must be marked to market no less frequently than monthly.

The University of Texas Investment Management Company
Derivative Investment Policy

Derivative Investment Policy Exhibit
Glossary of Terms

Application-specific risk – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be application-specific risk, as opposed to the overall risk of the stock market which would be Systematic Risk.

Baseline portfolio – The cash-market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.

Cash equivalents – Includes cash, short term fixed income instruments, accruals, variation margin and one day deposits in transit to the account.

Cash market - The physical market for a commodity or financial instrument.

Counterparty - The offsetting party in an exchange agreement.

Derivative application – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.

Derivative application portfolio – The portfolio including derivative instruments, cash equivalents, and other cash market assets established to replicate a specified baseline portfolio.

Economic exposure - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as “value at risk.”

Exchange traded derivatives - A derivative instrument traded on an established national or international exchange. These instruments “settle” daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the instruments are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

~~**Exchange Traded Funds** – Exchange listed and traded portfolios of publicly traded securities.~~

Forward contract - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

Futures contract - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

Option - An instrument that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

Over the counter derivatives - A derivative instrument which result from direct negotiation between a buyer and a counterparty. The terms of such instruments are non-standard and are the result of specific

The University of Texas Investment Management Company Derivative Investment Policy

negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

Swap - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

Systematic risk – The non-diversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as “market” or systematic risks.

Value at risk (VAR) – An established method of measuring economic exposure risk. The measure conveys the maximum potential loss (in dollars or percent of total assets) for a particular investment position, for a particular period of time, for a particular level of confidence.

11. **U. T. System Board of Regents: Discussion of revised disclosure regarding restatement of investment performance against benchmarks**

PURPOSE

Executive Vice Chancellor Kelley will discuss revised disclosure language for the restatement of investment performance benchmarks. The complete disclosure includes a table, presented on Page 18.3, with a year-by-year comparison of benchmarks as restated and prior to restatement, as well as a complete history of the benchmark composition for the Permanent University Fund (PUF) and General Endowment Fund (GEF) policy portfolios (Pages 18.4 – 18.8).

BACKGROUND INFORMATION

On July 8, 2005, the Board of Regents approved a restatement of the benchmarks for the presentation of endowment policy portfolios managed by UTIMCO. The Board also approved a corresponding Error Correction Policy. The complete form of disclosure for the restated benchmark history is shown on Pages 18.1 – 18.8. This disclosure includes a footnote at the bottom of the performance presentation (Page 18.1) that refers to the restatement and contains a link to the more detailed disclosure provided on Pages 18.2 – 18.8.

As requested by the Board, U. T. System staff and UTIMCO staff have prepared for discussion two alternate forms of disclosing the effect of the restatement on Pages 18.9 – 18.10.

UTIMCO Performance Summary
June 30, 2005

	Net Asset Value 6/30/2005 (in Millions)	Periods Ended June 30, 2005 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Three Months	Six Months	Calendar Year To Date	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
ENDOWMENT FUNDS												
Permanent University Fund	\$ 9,035.9	1.41	2.13	3.93	3.93	14.15	13.52	16.74	11.71	7.32	5.10	9.75
General Endowment Fund		1.42	2.07	3.89	3.89	14.25	13.58	16.78	11.96	7.66	N/A	N/A
Permanent Health Fund	896.5	1.40	2.03	3.82	3.82	14.12	13.43	16.63	11.82	7.52	5.07	N/A
Long Term Fund	3,876.2	1.40	2.03	3.81	3.81	14.12	13.43	16.61	11.85	7.56	5.25	10.44
Separately Invested Funds	173.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	13,981.9											
OPERATING FUNDS												
Short Term Fund	2,286.9	0.25	0.73	1.31	1.31	1.91	2.13	1.57	1.54	1.82	2.66	4.12
Short Intermediate Term Fund	1,213.2	0.29	1.19	1.38	1.38	2.02	3.01	2.09	2.22	2.79	4.09	5.07
Institutional Index Funds:												
BGI US Bond Index Fund	-	0.56	3.03	2.52	2.52	3.80	6.83	3.57	5.84	6.54	7.49	N/A
BGI Equity Index Fund	265.7	0.14	1.38	(0.77)	(0.77)	9.58	6.41	12.58	8.34	1.06	(2.33)	N/A
Total Operating Funds	3,765.8											
Total Investments	\$ 17,747.7											

BENCHMARKS (1)												
Permanent University Fund: Policy Portfolio		1.67	3.57	4.49	4.49	12.25	12.69	13.78	9.30	5.32	3.47	10.49
General Endowment Fund: Policy Portfolio		1.67	3.57	4.49	4.49	12.25	12.69	13.78	9.30	5.31	3.37	10.39
Short Term Fund: 90 Day Treasury Bills Average Yield		0.23	0.72	1.29	1.29	1.91	2.15	1.57	1.55	1.82	2.62	3.97
Short Intermediate Ter												
Merrill Lynch 1-3 Year Treasury Index (8/04-current)		0.20	1.14	0.88	0.88	0.81	1.95	1.15	2.45	3.48	4.58	5.15
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index		0.55	3.01	2.51	2.51	3.77	6.80	3.51	5.76	6.47	7.40	6.83
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		0.14	1.37	(0.81)	(0.81)	9.52	6.32	12.54	8.28	1.02	(2.37)	9.94

VALUE ADDED (2)												
Permanent University Fund		(0.26)	(1.44)	(0.56)	(0.56)	1.89	0.82	2.96	2.41	2.00	1.63	(0.74)
General Endowment Fund		(0.25)	(1.49)	(0.59)	(0.59)	2.00	0.88	3.00	2.66	2.34	N/A	N/A
Permanent Health Fund		(0.27)	(1.54)	(0.67)	(0.67)	1.87	0.74	2.86	2.52	2.21	1.70	N/A
Long Term Fund		(0.27)	(1.54)	(0.68)	(0.68)	1.87	0.73	2.83	2.55	2.25	1.88	0.05
Short Term Fund		0.02	0.01	0.02	0.02	0.00	(0.02)	0.01	(0.01)	(0.01)	0.03	0.15
Short Intermediate Term Fund		0.09	0.06	0.50	0.50	1.22	1.07	0.94	(0.23)	(0.70)	(0.49)	(0.08)
Institutional Bond Index Fund		0.01	0.02	0.01	0.01	0.02	0.03	0.06	0.08	0.08	0.09	N/A
Institutional Equity Index Fund		0.00	0.01	0.04	0.04	0.06	0.09	0.04	0.06	0.04	0.04	N/A

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all prior periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the web site at www.utimco.org or upon request.

(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by the UTIMCO staff and external managers.



**UTIMCO Restatement of Historical
Endowment Policy Portfolio Returns**

Performance Presentation Footnote and Detailed Disclosure

The following disclosure appears as a footnote to published performance results that include presentation of historical benchmarks:

Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all prior periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the web site at www.UTIMCO.org or upon request.

A link will be provided on the UTIMCO web site to disclosure in substantially the following form to describe the details of the restatement as well as prior Policy Portfolio returns:

Procedures Used to Restate Prior Policy Portfolio Returns

Policy Portfolio returns for all periods beginning June 1993 were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns as follows:

1. UTIMCO began publishing Policy Portfolio returns in 1997. At that time, Policy Portfolio returns for periods prior to 1997 were calculated using the policy asset allocation targets in place in 1997 rather than the actual approved allocations in prior years. In addition, when changes were made in asset allocation targets subsequent to 1997, those changes were implemented immediately in calculating Policy Portfolio returns, despite that fact that the changes might take years to actually implement especially in less liquid asset categories. As a result, prior Policy Portfolio returns did not accurately reflect either the true Asset Allocation Policies in place at each point in time in history or the practical implementation of those Policies. In order to correct these errors, UTIMCO analyzed Board of Regents minutes, UTIMCO Board minutes, and actual quarterly asset statements for the PUF and GEF/LTF for the period 1992 through 2003. Changes in Policy Allocations for liquid asset categories such as public equities and bonds were implemented almost immediately in the LTF/GEF's Policy Portfolio. However, changes in allocations to the LTF/GEF's private equity and hedge funds were phased in on a straight-line basis over time periods that were deemed reasonable to reflect the actual time it would take to implement those changes in the actual endowment portfolios. The PUF was phased-in more closely aligned with actual asset allocation due to the restraints placed on it from the distribution requirements. A senior consultant at Cambridge Associates reviewed the phase in procedures and found them to be reasonable.
2. Since the time it began reporting Policy Portfolio returns in 1997, UTIMCO has reported a single Policy Portfolio return for each time period for comparison to both the PUF and GEF/LTF. However, prior to Texas State Proposition 17 in 1999, the PUF asset allocation was constrained by the necessity to maintain a relatively level annual distribution which could be paid only out of current income. Proposition 17 converted the PUF to a so-called "total return" basis in which distributions could be paid out of either income or principal. The GEF/LTF had paid distributions on a "total return" basis since 1987. In a period of generally declining interest rates over the late 1990's, the PUF was forced into asset allocation positions that differed substantially from stated Investment Policy Targets which were apparently set without consideration of the income requirements (there was no differentiation in Asset Allocation Policy for the PUF and the GEF/LTF) in order to meet income requirements to pay distributions. To correct this error in Policy Portfolio construction, the phase-in process described above was done differently for the PUF Policy Portfolio than for the GEF/LTF Policy Portfolio, resulting in different returns for the two benchmarks. Phase-ins for the PUF were defined to more closely mirror the actual holdings in the PUF since the need to generate current income sometimes precluded a smooth linear phase-in as used in the

**UTIMCO Restatement of Historical
Endowment Policy Portfolio Returns cont'd**

case of the GEF/LTF. A senior consultant from Cambridge Associates reviewed the assumptions for both the PUF and GEF/LTF and found them to be appropriate.

3. Like many investors in the private capital asset category, UTIMCO has had difficulty determining an appropriate benchmark for the asset category. Over the 1993 through 2004 time period, UTIMCO has used at various times a flat 17% benchmark, a Wilshire 5000 +4% benchmark, and has recently adopted the Venture Economics Periodic IRR Index to evaluate actual private capital performance. Both the flat 17% benchmark and the Wilshire 5000 + 4% proxy benchmark have serious flaws. An essential trait of any appropriate benchmark is that returns for the benchmark should have a high degree of correlation with the actual returns of the portfolio to which the benchmark is being used as a comparison. As the table below indicates, the flat 17% and Wilshire 5000 + 4% benchmarks fail this essential test, especially over shorter time frames. These correlation measures were calculated from actual data over the 1993 to 2003 time period.

Correlation Coefficients	UTIMCO and Venture Economics	UTIMCO and Wilshire +4%	UTIMCO and 17%
1 Year	0.9229	0.5162	0.0000
3 Years	0.8931	0.8882	0.0291
5 Years	0.9520	0.9710	0.0000

While the Wilshire proxy benchmark might be appropriate for longer term time periods such as 5 to 10 years, it is clearly not appropriate over shorter time periods such as one year. The flat 17% benchmark is not appropriate over any time period. On the other hand, the Venture Economics Index passes this important test over all time periods. Since we know that this Index has been a good benchmark over the ten year period that historical results are provided by the statistics above, the Venture Economics Index has been applied retroactively as the private capital asset category benchmark.

The composite result of the restatements of historical Policy Portfolio returns are indicated in the table below. The table also presents Policy Portfolio returns under the prior methods of calculation.

UTIMCO Performance Summary

	Years Ended August 31,										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Permanent University Fund	3.24	16.04	10.63	23.77	4.94	17.82	16.53	(8.64)	(7.35)	12.02	14.73
Permanent University Fund Policy Portfolio	1.72	16.27	12.83	24.72	12.45	20.06	21.88	(9.41)	(6.77)	6.75	13.15
General Endowment Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(6.96)	12.81	14.77
Permanent Health Fund	N/A	N/A	N/A	N/A	N/A	N/A	16.08	(9.24)	(7.05)	12.67	14.60
Long Term Fund	4.11	15.77	11.49	25.04	1.87	21.92	20.59	(8.80)	(6.97)	12.78	14.59
General Endowment Fund Policy Portfolio	2.63	16.69	13.54	26.25	6.74	23.55	21.28	(9.59)	(6.77)	6.75	13.15
Policy Portfolio Before Restatement	7.31	16.02	13.59	25.58	2.05	29.08	16.06	(11.36)	(6.57)	11.93	14.44

UTIMCO ENDOWMENT POLICY PORTFOLIO

Benchmark Composition History

PUF Endowment Benchmark History: Beginning January 1, 2004, represents the policy targets as set forth in the Investment Policy Statements approved by the Board of Regents on December 19, 2003. This benchmark is comprised of 20% Russell 3000 Index, 5% Dow Jones Wilshire Real Estate Securities Index, 17% MSCI All Country World ex-U.S. Index, 10% 90 Day T-Bills + 4%, 15% 90 Day T-Bills + 3%, 15% Venture Economics Private Capital Benchmark, 3% GSCI minus 1%, 10% Lehman Brothers Aggregate Bond Index, and 5% Lehman Brothers U.S. TIPS Index Returns through December 31, 2003, represent the returns of the UTIMCO Board of Directors approved Endowment Policy Portfolio. The return history of this benchmark has been supplied by UTIMCO, and the composition of the benchmark is understood as follows:

- **(Sept 1, 2002 - Dec 31, 2003)** - This benchmark is comprised of 24.3% Wilshire 5000 Index, 15.7% MSCI All Country World Free ex-U.S. Index, 20% 90 Day T-Bills + 4%, 10% GSCI minus 1%, 10% Lehman Brothers Government Bond Index, 5% Lehman Brothers Aggregate Bond ex-Government Index, and 15% Venture Economics Private Capital Benchmark.
- **(Nov 1, 2000 - Aug 31, 2002)** - This benchmark is comprised of 25% S&P 500 Index, 7.5% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Sept 1, 2000 - Oct 31, 2000)** - This benchmark is comprised of 25% S&P 500 Index, 7.5% Russell 2000 Index, 12% FT Actuarial World ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Mar 1, 2000 - Aug 31, 2000)** - This benchmark is comprised of 29% S&P 500 Index, 7.5% Russell 2000 Index, 12% FT Actuarial World ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 6% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Dec 1, 1999 - Feb 28, 2000)** - This Benchmark is comprised of 34% S&P 500 Index, 8% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 7.5% GSCI minus 1%, 30.5% Lehman Brothers Aggregate Bond Index, 13% Venture Economics Index.
- **(Jun 1, 1999 - Nov 30, 1999)** - This Benchmark is comprised of 46% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 30% Lehman Brothers Government Long Index, 11% Venture Economics Index.
- **(Mar 1, 1999 - May 31, 1999)** This Benchmark is comprised of 47% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 31% Lehman Brothers Government Long Index, 9% Venture Economics Index.
- **(Jun 1, 1998 - Feb 28, 1999)** This Benchmark is comprised of 43% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 36% Lehman Brothers Government Long Index, 8% Venture Economics Index.
- **Mar 1, 1998 - May 31, 1998)** This Benchmark is comprised of 44% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 36% Lehman Brothers Government Long Index, 7% Venture Economics Index.

UTIMCO ENDOWMENT POLICY PORTFOLIO

Benchmark Composition History cont'd

- **(Dec 1, 1997 - Feb 28, 1998)** This Benchmark is comprised of 45% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 36% Lehman Brothers Government Long Index, 6% Venture Economics Index.
- **(Mar 1, 1997 - Nov 30, 1997)** This Benchmark is comprised of 43% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 38% Lehman Brothers Government Long Index, 6% Venture Economics Index.
- **(Mar 1, 1996 - Feb 28, 1997)** This Benchmark is comprised of 40% S&P 500 Index, 5% Wilshire Small Cap Index, 5% MSCI EAFE, 44% Salomon Broad Investment Grade Bond Index, 6% Venture Economics Index.
- **(Jun 1, 1995 - Feb 28, 1996)** This Benchmark is comprised of 45% S&P 500 Index, 49% Shearson Lehman Government Corporate Bond Index, 6% Venture Economics Index.
- **(Jun 1, 1994 - May 31, 1995)** This Benchmark is comprised of 43% S&P 500 Index, 52% Shearson Lehman Government Corporate Bond Index, 5% Venture Economics Index.
- **(Sept 1, 1993 - May 31, 1994)** This Benchmark is comprised of 42% S&P 500 Index, 54% Shearson Lehman Government Corporate Bond Index, 4% Venture Economics Index.
- **(Jun 1, 1993 - Aug 31, 1993)** This Benchmark is comprised of 40% S&P 500 Index, 57% Shearson Lehman Government Corporate Bond Index, 3% Venture Economics Index.

GEF Endowment Benchmark History: Beginning January 1, 2004, represents the policy targets as set forth in the Investment Policy Statements approved by the Board of Regents on December 19, 2003. This benchmark is comprised of 20% Russell 3000 Index, 5% Dow Jones Wilshire Real Estate Securities Index, 17% MSCI All Country World ex-U.S. Index, 10% 90 Day T-Bills + 4%, 15% 90 Day T-Bills + 3%, 15% Venture Economics Private Capital Benchmark, 3% GSCI minus 1%, 10% Lehman Brothers Aggregate Bond Index, and 5% Lehman Brothers U.S. TIPS Index Returns through December 31, 2003, represent the returns of the UTIMCO Board of Directors approved Endowment Policy Portfolio. The return history of this benchmark has been supplied by UTIMCO, and the composition of the benchmark is understood as follows:

- **(Sept 1, 2002 - Dec 31, 2003)** This benchmark is comprised of 24.3% Wilshire 5000 Index, 15.7% MSCI All Country World Free ex-U.S. Index, 20% 90 Day T-Bills + 4%, 10% GSCI minus 1%, 10% Lehman Brothers Government Bond Index, 5% Lehman Brothers Aggregate Bond ex-Government Index, and 15% Venture Economics Private Capital Benchmark.
- **(Sept 1, 2001 - Aug 31, 2002)** This benchmark is comprised of 25% S&P 500 Index, 7.5% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Jun 1, 2001 - Aug 31, 2001)** This benchmark is comprised of 25% S&P 500 Index, 8.1% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 14.4% Venture Economics Index.
- **(Mar 1, 2001 - May 31, 2001)** This benchmark is comprised of 25% S&P 500 Index, 8.6% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills +

UTIMCO ENDOWMENT POLICY PORTFOLIO

Benchmark Composition History cont'd

7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 13.9% Venture Economics Index.

- **(Dec 1, 2000 - Feb 28, 2001)** This benchmark is comprised of 25% S&P 500 Index, 9.2% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 13.3% Venture Economics Index.
- **(Nov 1, 2000 - Nov 30, 2000)** This benchmark is comprised of 25% S&P 500 Index, 9.7% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 12.8% Venture Economics Index.
- **(Sept 1, 2000 - Oct 31, 2000)** This benchmark is comprised of 25% S&P 500 Index, 9.7% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 12.8% Venture Economics Index.
- **(Jun 1, 2000 - Aug 31, 2000)** This benchmark is comprised of 25% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15.3% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 12.2% Venture Economics Index.
- **(Mar 1, 2000 - May 31, 2000)** This benchmark is comprised of 25% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15.9% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 11.6% Venture Economics Index.
- **(Dec 1, 1999 - Feb 28, 2000)** This benchmark is comprised of 25% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 16.4% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 11.1% Venture Economics Index.
- **(Sept 1, 1999 - Nov 30, 1999)** This benchmark is comprised of 30% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 22.5% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 10.5% Venture Economics Index.
- **(Jun 1, 1999 - Aug 31, 1999)** This benchmark is comprised of 31.9% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 21.2% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 9.9% Venture Economics Index.
- **(Mar 1, 1999 - May 31, 1999)** This benchmark is comprised of 33.8% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 19.8% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 9.4% Venture Economics Index.
- **(Dec 1, 1998 - Feb 28, 1999)** This benchmark is comprised of 35.6% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7%

UTIMCO ENDOWMENT POLICY PORTFOLIO

Benchmark Composition History cont'd

CPI + 8%, 18.6% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 8.8% Venture Economics Index.

- **(Sept 1, 1998 - Nov 30, 1998)** This benchmark is comprised of 37.5% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 17.2% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 8.3% Venture Economics Index.
- **(Jun 1, 1998 - Aug 31, 1998)** This benchmark is comprised of 39.4% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 15.9% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 7.7% Venture Economics Index.
- **(Mar 1, 1998 - May 31, 1998)** This benchmark is comprised of 41.3% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 26.6% Lehman Gov't Long Index, 7.1% Venture Economics Index.
- **(Dec 1, 1997 - Feb 28, 1998)** This benchmark is comprised of 43.1% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 25.3% Lehman Gov't Long Index, 6.6% Venture Economics Index.
- **(Mar 1, 1997 - Nov 30, 1997)** This benchmark is comprised of 45.0% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 24.0% Lehman Gov't Long Index, 6.0% Venture Economics Index.
- **(Dec 1, 1996 - Feb 28, 1997)** This benchmark is comprised of 45.0% S&P 500 Index, 10% Wilshire Small Cap Index, 9.7% MSCI EAFE Index, 2% IFC Investable Comp. Index, 27.3% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1996 - Nov 30, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 8.8% Wilshire Small Cap Index, 9.1% MSCI EAFE Index, 1.8% IFC Investable Comp. Index, 29.3% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Jun 1, 1996 - Aug 31, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 7.5% Wilshire Small Cap Index, 8.5% MSCI EAFE Index, 1.5% IFC Investable Comp. Index, 31.5% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Mar 1, 1996 - May 31, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 6.3% Wilshire Small Cap Index, 7.9% MSCI EAFE Index, 1.3% IFC Investable Comp. Index, 33.5% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Dec 1, 1995 - Feb 28, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 5.0% Wilshire Small Cap Index, 7.3% MSCI EAFE Index, 1.0% IFC Investable Comp. Index, 35.7% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1995 - Nov 30, 1995)** This benchmark is comprised of 45.0% S&P 500 Index, 3.8% Wilshire Small Cap Index, 6.8% MSCI EAFE Index, 0.8% IFC Investable Comp. Index, 37.6% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.

UTIMCO ENDOWMENT POLICY PORTFOLIO

Benchmark Composition History cont'd

- **(Jun 1, 1995 - Aug 31, 1995)** This benchmark is comprised of 45.0% S&P 500 Index, 2.5% Wilshire Small Cap Index, 6.2% MSCI EAFE Index, 0.5% IFC Investable Comp. Index, 39.8% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Mar 1, 1995 - May 31, 1995)** This benchmark is comprised of 45.0% S&P 500 Index, 1.3% Wilshire Small Cap Index, 5.6% MSCI EAFE Index, 0.3% IFC Investable Comp. Index, 41.8% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1994 - Feb 28, 1995)** This benchmark is comprised of 50.0% S&P 500 Index, 44.0% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Jun 1, 1994 - Aug 31, 1994)** This benchmark is comprised of 49.5% S&P 500 Index, 44.5% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Mar 1, 1994 - May 31, 1994)** This benchmark is comprised of 49.0% S&P 500 Index, 45.0% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Dec 1, 1993 - Feb 28, 1994)** This benchmark is comprised of 48.5% S&P 500 Index, 45.5% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1993 - Nov 30, 1993)** This benchmark is comprised of 48.0% S&P 500 Index, 46.0% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Jun 1, 1993 - Aug 31, 1993)** This benchmark is comprised of 47.5% S&P 500 Index, 46.5% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.

	Net Asset Value 5/31/2005 (in Millions)	Periods Ended Net Asset Value (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
ENDOWMENT FUNDS												
Permanent University Fund	\$ 8,899.8	1.73	0.14	2.49	4.97	12.56	13.41	16.67	10.00	6.79	5.47	9.76
General Endowment Fund		1.72	0.09	2.44	4.89	12.65	13.38	16.76	10.20	7.18	N/A	N/A
Permanent Health Fund	887.2	1.73	0.04	2.39	4.83	12.55	13.31	16.60	10.08	7.05	5.53	N/A
Long Term Fund	3,792.4	1.73	0.04	2.38	4.84	12.55	13.32	16.61	10.11	7.09	5.61	10.46
Separately Invested Funds	208.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	13,787.7											
OPERATING FUNDS												
Short Term Fund	2,328.4	0.25	0.70	1.06	1.23	1.66	1.97	1.49	1.51	1.84	2.71	4.14
Short Intermediate Term Fund	1,202.0	0.43	0.98	1.09	1.39	1.73	2.93	1.96	2.24	2.81	4.33	5.11
Institutional Index Funds:												
BGI US Bond Index Fund	-	1.09	1.91	1.95	2.90	3.22	6.85	3.19	5.97	6.50	7.81	N/A
BGI Equity Index Fund	265.3	3.20	(0.53)	(0.91)	2.49	9.43	8.32	13.21	5.66	0.41	(1.88)	N/A
Total Operating Funds	3,795.7											
Total Investments	\$ 17,583.4											

BENCHMARKS (1)												
Permanent University Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.85	10.48	
Permanent University Fund: Prior Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	14.63	10.30	7.78	6.32	11.60	
General Endowment Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.75	10.37	
General Endowment Fund: Prior Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	14.63	10.30	7.78	6.52	11.70	
Short Term Fund: 90 Day Treasury Bills Average Yield	0.26	0.73	1.06	1.28	1.67	1.99	1.52	1.52	1.84	2.66	4.00	
Short Intermediate Term Fund: Composite (3/93-7/04) and Merrill Lynch 1-3 Year Treasury Bills Average Yield (8/04-current)	0.38	0.95	0.68	0.89	0.61	1.82	1.10	2.65	3.52	4.77	5.19	
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index	1.08	1.92	1.96	2.90	3.21	6.82	3.13	5.87	6.42	7.73	6.85	
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)	3.18	(0.57)	(0.95)	2.42	9.36	8.24	13.17	5.60	0.36	(1.93)	10.18	

VALUE ADDED (2)												
Permanent University Fund Restated Policy Portfolio	(0.11)	(1.75)	(0.29)	0.38	2.15	1.43	3.36	2.16	2.24	1.62	(0.72)	
Permanent University Fund Prior Policy Portfolio	(0.11)	(1.75)	(0.29)	0.38	2.15	1.43	2.04	(0.30)	(0.98)	(1.05)	(1.84)	
General Endowment Fund Restated Policy Portfolio	(0.12)	(1.80)	(0.34)	0.30	2.23	1.40	3.45	2.36	2.63	N/A	N/A	
General Endowment Fund Prior Policy Portfolio	(0.12)	(1.80)	(0.34)	0.30	2.23	1.40	2.13	(0.10)	(0.59)	N/A	N/A	
Permanent Health Fund	(0.11)	(1.85)	(0.39)	0.24	2.14	1.34	3.29	2.23	2.49	1.78	N/A	
Long Term Fund	(0.11)	(1.85)	(0.39)	0.25	2.14	1.34	3.31	2.26	2.54	1.86	0.09	
Short Term Fund	(0.01)	(0.03)	0.00	(0.04)	(0.02)	(0.02)	(0.03)	(0.02)	0.00	0.05	0.15	
Short Intermediate Term Fund	0.05	0.04	0.41	0.50	1.12	1.11	0.87	(0.41)	(0.71)	(0.44)	(0.09)	
Institutional Bond Index Fund	0.01	(0.01)	(0.01)	0.00	0.01	0.03	0.07	0.10	0.07	0.08	N/A	
Institutional Equity Index Fund	0.02	0.04	0.04	0.07	0.06	0.09	0.04	0.06	0.05	0.04	N/A	

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the website at www.utimco.org or upon request.

(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by the UTIMCO staff and external managers.

Restated Performance History
With Benchmark Restatement Summary

UTIMCO Performance Summary
May 31, 2005

Net Asset Value 5/31/2005 (in Millions)	Periods Ended May 31, 2005 (Returns for Periods Longer Than One Year are Annualized)										
	One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
	1.73	0.14	2.49	4.97	12.56	13.41	16.67	10.00	6.79	5.47	9.76
Permanent University Fund	1.72	0.09	2.44	4.89	12.65	13.38	16.76	10.20	7.18	N/A	N/A
General Endowment Fund	887.2	1.73	0.04	2.39	4.83	13.31	16.60	10.08	7.05	5.53	N/A
Permanent Health Fund	3,792.4	1.73	0.04	2.38	4.84	13.32	16.61	10.11	7.09	5.61	10.46
Long Term Fund	208.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Separately Invested Funds	208.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	13,787.7										
OPERATING FUNDS											
Short Term Fund	2,338.4	0.25	0.70	1.06	1.23	1.66	1.97	1.49	1.84	2.71	4.14
Short Intermediate Term Fund	1,202.0	0.43	0.98	1.09	1.39	1.73	2.93	1.96	2.24	2.81	4.33
Institutional Index Funds:											
BGI US Bond Index Fund											
BGI Equity Index Fund	265.3	1.09	1.91	1.95	2.90	3.22	6.85	3.19	5.97	6.50	7.81
Total Operating Funds	3,795.7	3.20	(0.53)	(0.91)	2.49	9.43	8.32	13.21	5.66	0.41	(1.88)
Total Investments	\$ 17,583.4										

Net Asset Value 5/31/2005 (in Millions)	Periods Ended August 31, 2005										
	One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
	1.84 <th>1.89 <th>2.77 <th>4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th></th></th></th>	1.89 <th>2.77 <th>4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th></th></th>	2.77 <th>4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th></th>	4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th>	10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th>	11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th>	13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th>	7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th>	4.55 <th>3.85 <th>10.48</th> </th>	3.85 <th>10.48</th>	10.48
Permanent University Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.85	10.48
General Endowment Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.75	10.37
Short Term Fund: 90 Day Treasury Bills Average Yield	0.26	0.73	1.06	1.28	1.67	1.99	1.52	1.52	1.84	2.66	4.00
Short Intermediate Term Fund: Composite (3/93-7/04) and Merrill Lynch 1-3 Year Treasury Index (8/04-current)	0.38	0.95	0.68	0.89	0.61	1.82	1.10		3.52	4.77	5.19
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index	1.08	1.92	1.96	2.90	3.21	6.82	3.13	5.87	6.92	7.73	6.85
Institutional Equity Index Fund: Standard & Poor's 500 Index (S&P 500)	3.18	(0.57)	(0.95)	2.42	9.36	8.24	13.17	5.60	0.36	(1.93)	10.18
VALUE ADDED (2)											
Permanent University Fund Restated Policy Portfolio	(0.11)	(1.73)	(0.29)	0.38	2.15	1.43	3.36	2.16	2.24	1.62	(0.72)
General Endowment Fund Restated Policy Portfolio	(0.12)	(1.80)	(0.34)	0.30	2.23	1.40	3.45	2.36	2.63	N/A	N/A
Permanent Health Fund	(0.11)	(1.85)	(0.39)	0.24	2.14	1.31	3.29	2.23	2.19	1.78	N/A
Long Term Fund	(0.11)	(1.83)	(0.39)	0.25	2.14	1.34	3.31	2.26	2.54	1.86	0.09
Short Term Fund	(0.01)	(0.03)	0.00	(0.02)	(0.02)	(0.03)	(0.02)	0.00	0.00	0.15	(0.09)
Short Intermediate Term Fund	0.05	0.01	0.41	0.50	1.12	1.11	0.87	(0.43)	(0.71)	(0.44)	(0.09)
Institutional Bond Index Fund	0.01	(0.01)	(0.01)	0.00	0.01	0.05	0.07	0.10	0.07	0.08	N/A
Institutional Equity Index Fund	0.02	0.01	0.04	0.07	0.86	0.69	0.04	0.06	0.05	0.04	N/A

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the website www.utimco.org or upon request. The impact of the restatement by fiscal year is shown below.

UTIMCO Performance Benchmark Restatement Summary

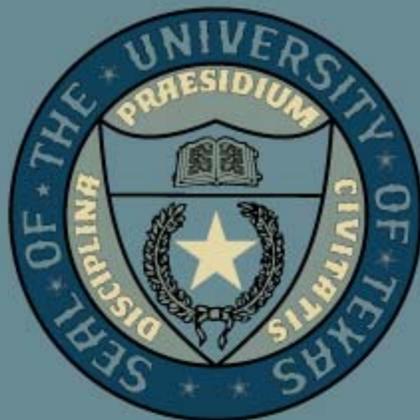
Net Asset Value 5/31/2005 (in Millions)	Periods Ended August 31, 2005											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	12.36	3.24	16.04	10.63	23.77	4.94	17.82	16.53	(8.64)	(7.35)	12.02	14.73
Permanent University Fund	1.69	1.72	16.27	12.83	24.72	12.45	20.06	21.88	(9.41)	(6.77)	6.75	13.15
Permanent University Fund Policy Portfolio												
General Endowment Fund	3.13	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(6.96)	12.81	14.77
Permanent Health Fund	3.15	4.11	15.77	11.49	25.04	1.87	21.92	20.59	(8.80)	(6.97)	12.78	14.59
Long Term Fund	1.69	2.63	16.69	13.54	26.25	6.74	23.55	21.28	(9.59)	(6.77)	6.75	13.15
General Endowment Fund Policy Portfolio												
Policy Portfolio Before Restatement	1.69	7.31	16.02	13.59	25.58	2.05	29.08	16.06	(11.36)	(6.57)	11.93	14.44

(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by the UTIMCO staff and external managers.

12. **U. T. System: Report on highlights of the 79th Texas Legislature, Regular Session**

REPORT

Vice Chancellor Ashley Smith will present highlights of the 79th Texas Legislature, Regular Session. He will discuss key measures and their effect on higher education in the upcoming 2006-2007 biennium including System-wide plans to enhance educational attainment and research in Texas, using the PowerPoint attached on Pages 19.1 – 19.14. A related report is included in the back pocket of this notebook.



THE UNIVERSITY OF TEXAS SYSTEM

Highlights of the 79th Texas Legislature Regular Session

August 11, 2005

Office of Governmental Relations



Contents

- I. **Significance of What Did and Did Not Happen**
- II. **Appropriations Overview**
 - **Biennial Comparisons**
- III. **System Legislative Priorities**
- IV. **Interim Sessions – First and Second Called**



Significance of What Didn't Happen

This legislative session may be most notable for what was proposed but did NOT happen:

- Tuition flexibility was not repealed or limited
- Statewide accountability plan—that would have tied tuition flexibility to accountability--was not enacted
- Claimants in the sovereign immunity case were not permitted to sue.
- Top 10% law was not repealed or modified
- Tuition revenue bonds were not approved
- Stem cell research was not limited
- Tobacco permanent funds were not moved into the treasury



Significance of What Did Happen

- **Both academic and health institutions received increased appropriations over FY 04-05, with additional formula funding for formula enhancement and enrollment growth (\$160 million for academics, \$58 million for health)**
- **Graduate Medical Education (GME) for the first time received separate formula funding for faculty support (\$25 million)**
- **The correctional managed care shortfall was covered by a supplemental appropriation, and the amount appropriated for the next biennium was increased by \$60 million.**
- **A non-voting student regent was added to each of the state's boards of regents.**
- **A new Texas Emerging Technology Fund was created to underwrite university research and technology transfer.**
- **Higher education was relieved from some reporting burdens and the overall reporting burden will be studied in depth during the legislative interim.**
- **Disclosure of private equity investment information was clarified, permitting UTIMCO to continue to make private equity investments.**



Appropriations Summary

HEALTH INSTITUTIONS GENERAL REVENUE

(\$ millions)	04-05	06-07	\$ Change	% Change
UT Southwestern	\$201.9	\$259.0	\$57.1	28.26 %
UTMB Galveston	428.2	438.3	10.1	2.37 %
UTHSC Houston	243.8	261.6	17.8	7.28 %
UTHSC San Antonio	246.5	258.0	11.5	4.69 %
UT MD Anderson	268.3	288.8	20.5	7.64 %
UTHC Tyler	64.6	65.9	1.3	2.01 %
Total	\$1,453.3	\$1,571.6	\$118.3	8.14 %

****Inflation factor per biennium: 3.7%**



Appropriations Summary

ACADEMIC INSTITUTIONS GENERAL REVENUE

(\$ millions)	04-05	06-07	\$ Change	% Change
UT Arlington	\$163.0	\$169.0	\$6.0	3.69 %
UT Austin	483.4	502.8	19.4	4.01 %
UT Dallas	113.0	121.9	8.9	7.85 %
UT El Paso	117.9	126.5	8.6	7.27 %
UT Pan Am	99.2	109.8	10.6	10.72 %
UT Brownsville	37.6	41.2	3.5	9.40 %
UT Permian Basin	26.8	28.8	2.1	7.76 %
UT San Antonio	135.5	162.7	27.2	20.07 %
UT Tyler	43.8	50.4	6.5	14.95 %
Total	\$1,220.2	\$1,313.0	\$92.8	7.61 %
System Administration	1.65	1.56	(0.08)	(- 5.00)%
Grand total	2,675.09	2,886.15	211.06	7.89 %
*Enrollment Growth				[6%]
**Inflation				[3.7%]

19.6



U.T. System Institutions Biennial Comparisons

Health

	02-03	04-05	06-07
	\$1.483 Billion	\$1.453 Billion	\$1.57 Billion
% Difference		[-2%]	[+8.14%]

Academic

	02-03	04-05	06-07
\$ per FTSE	\$5019	\$4430	\$4494
% Difference		[-12%]	[+1.4%]
*Enrollment Growth		[13.9 %]	[6%]
**Inflation		[3.7%]	[3.7%]



System Legislative Priorities

Closing the Gaps

- Legislature has reappropriated and reallocated the Higher Education Assistance Fund (HEAF). UT Brownsville will receive \$2.8 million per year, up from \$1.05 million, and UT Pan American will receive \$8.6 million per year, up from \$6.08 million. [HB 3001]
- An emerging institution, UT Health Center – Tyler, was approved to offer education and training in allied health and related health science fields. [SB 276]



System Legislative Priorities

Ensuring High Quality Education & Academic Success

- TEXAS grant program changed to increase the availability of grants to students in public institutions of higher education while raising the minimum required GPA to retain eligibility. [SB 1227; HB 1172]
- Tuition-based graduation incentives enacted, encouraging timely graduation in order to reduce costs and make space for the anticipated increase in enrolled students. [SBs 30, 32]
- A new appropriations rider requires the Legislative Budget Board (LBB) and Coordinating Board to work with higher education institutions to align appropriations performance measures with the measures included in the statewide accountability system developed by the Coordinating Board. [SB 1]



System Legislative Priorities

Providing Excellence in Health Care

- Formula funding of GME: \$25 million annually statewide, primarily salaries for faculty supervision of medical residents. [SB 1]
- Immediate additional \$66.3 million for correctional managed health care, in addition \$25 million increase for the biennium [HB10; SB 1]
- Incentives to recruit and retain nursing faculty: tuition waivers, continuation of retirement benefits for nursing faculty who return to work, and low-cost home loans. [SB 132]



System Legislative Priorities

Enhancing Institutional Competitiveness for Educators & Researchers

- \$132 million for full debt service (two years' principal and interest) on existing TRBs for UT institutions. [SB 1]
- \$42.8 million appropriated to the *Research Development Fund* (RDF), an increase of \$19.5 million. System institutions will receive \$14.3 million during the biennium, or 33.5 percent of the total. [SB 1]
- Texas Enterprise Fund funded at \$140 million
- New *Texas Emerging Technology Fund*, which has a higher education applied technology focus funded at \$100 million with a potential for an additional \$100 million. [HBs 10, 1765]
- System permitted to charge resident tuition for employees (and family) of science and technology partners, such as Sandia NL. [SB 1528]



System Legislative Priorities

Strengthening Services to Public Education & Communities

- The UT Center for Improving the Readiness of Children for Learning and Education (CIRCLE), part of the UT Health Science Center – Houston, will participate in the development of a school readiness certification system as part of the *Statewide Early Childhood Initiative*. [SB 23]
- UT Brownsville has been authorized to establish the *Texas Academy for Mathematics and Science Studies*, designed to provide high school students with the opportunity to pursue mathematics education. [SB 1452]



System Legislative Priorities

Improving Efficiency of Operations and Productive Use of Resources

- Coordinating Board and Legislative Budget Board will study higher education reporting requirements that are duplicative, inefficient, or unnecessary. [SB 1226]
- Some requirements for reporting to the Legislative Budget Board by institutions of higher education and other state agencies were repealed. [HB 2753]
- Institutions of higher education received additional flexibility in operating and maintaining their vehicle fleets, including exemption from any minimum use criteria. [HB 3227]
- The required disclosure of portfolio company information associated with private equity investments by UTIMCO (and other public investors) was clarified in manner that will permit continued private equity investment [SB 121]



Special Session Actions

First Called Session - Key Legislation

- Fiscal Matters [HB 1/SB 1, HB 5/SB 5, SB 6]
 - Public School Finance [HB 2/SB 2]
 - Property Tax Relief [HB 3/SB 3]
 - Tuition Revenue Bonds [HB 6/SB 80]
 - Judicial Pay Increase [HB 11/SB 11]
 - Eminent Domain [HB 78, HB 116, SB 62]
 - Telecom [SB 21]
- The First Called Session ended at midnight on Wednesday, July 20, 2005. The legislature did not vote out the bills on a Public School Finance or Property Tax Relief plan. Governor Perry immediately called legislators back for the Second Called Session beginning on Thursday, July 21, 2005.

Second Called Session – Subjects:

- Public School Finance
- Property Tax Relief
- Tuition Revenue Bonds
- Judicial Pay Increase
- Telecom

13. **U. T. System: Accountability Framework Refinements for 2005 Report**

REPORT

Dr. Geri Malandra, Associate Vice Chancellor for Institutional Planning and Accountability, will brief members of the Board on refinements to the framework and timeline for The University of Texas System Strategic Planning Framework Proposal for 2005-06 attached on Pages 20.1 – 20.6.

The University of Texas System
Accountability and Performance Report
2005

Presentation Outline

1. Background

- State and national policy context for accountability
- Timeline
- Operating principles: consistency, reduced reporting burden, alignment, analysis, and usefulness

2. Refinements for 2005 Edition

- Proposed enhancements of performance measures and analysis
- Use of report

The University of Texas System

**Preliminary Accountability Timeline
2005**

April– July 2005	<p>Consult presidents and accountability working group on usefulness of measures and potential targets</p> <p>Consult with Coordinating Board on any adjustments to State accountability system</p> <p>Analyze results of consultations; consider changes in framework</p>
July 2005	Accountability Working Group meets to recommend enhancements of framework
August – September 2005	<p>Brief Regents on proposed adjustments in framework</p> <p>Send requests for data updates to institutions</p>
September- October 2005	Data update responses due
October 2005	Data analysis and report drafting
November 2005	Final data analysis, drafting, and preliminary review
December, 2005	Draft report to Board and presidents for first reading
January 2006	Report distributed to Board for second review
February 2006	Presentation of 2005-06 report to Board

The University of Texas System
Accountability and Performance Report 2005

Performance Measures – U. T. System Academic Institutions

Five-year trends where data are available
Proposed additions in italics

I. Student Access and Success – Undergraduate Students
1. Number and percent increase of first-time, full-time degree-seeking undergraduates, disaggregated by ethnicity and gender
2. Ethnic composition of first-time, full-time undergraduates compared with composition of high school graduates in state
3. Average ACT/SAT scores of first-time, full-time, degree-seeking undergraduates
4. Number and percent of first-time, full-time, degree-seeking undergraduate from top 10 percent of their high school class, by ethnicity
5. Number of undergraduate students enrolled on 12th class day, by ethnicity, gender, and age
6. Number of first-time, part-time undergrads; first-time, part-time degree-seeking undergrads; percent part-time undergrads
7. Total financial aid disaggregated by source
8. Total financial aid and net tuition and fees
9. Percent TEXAS grant funds allocated
10. Number and amount of financial aid awards to undergraduate student
11. Tuition, required fees, and scholarship aid
12. First-year persistence rate for first-time, full-time degree-seeking undergraduates enrolled at this University, by ethnicity, gender
13. Four-, five-, and six-year graduation rates from this University of first-time, full-time freshmen
14. Six-year persistence rates of students enrolled at this University, by ethnicity and gender
15. Four-year graduation rate from this University of transfer/community college students
16. Six-year composite graduation and persistence rates from this or another Texas public university, by ethnicity and gender
17. Number of baccalaureate degrees awarded, by ethnicity and gender
18. Certification exam pass rates of teacher education baccalaureate graduates, by ethnicity and gender
19. Licensure exam pass rates of nursing graduates
20. Licensure exam pass rates of engineering graduates
21. Certification exam pass rates of accounting graduates
22. Student outcomes: satisfaction with advising
23. Student outcomes: evaluation of overall educational experience
24. Student outcomes: likelihood of attending same institution again
<i>Proposed for 2005-06</i>
<i>25. Student learning outcomes (academic undergraduate)</i>
<i>26. Postgraduation experience (proportion of students employed or enrolled in graduate/professional school one year after graduation)</i>

I. Student Access and Success – Graduate and Professional Students
27. Average entrance examination scores of entering students: GRE, LSAT, GMAT
28. Number of graduate and professional students enrolled on the 12 th class day, by ethnicity and gender
29. Number of degrees awarded by level (masters, professional, doctoral), disaggregated by gender and ethnicity
30. Graduate/professional student certification/licensure exam pass rates for law
31. Graduate/professional student certification/licensure exam pass rates for pharmacy
32. Graduate and professional degrees in high priority fields
33. Graduate education degrees conferred
34. Number of graduate and professional programs, by level
<i>Proposed for 2005-06</i>
<i>35. Postgraduation experience of graduate/professional students (employment one year after graduating from graduate/professional program)</i>

Performance Measures – U. T. System Academic Institutions, continued

II. Teaching, Research, and Health Care Excellence
36. Dollar amount of research expenditures, by funding source (federal, state, private, local)
37. Dollar amount of all sponsored revenue, by source
38. State appropriations for research as a percent of research expenditures
39. Number and percent of FTE tenure/tenure-track faculty holding extramural grants
40. Ratio of research expenditures to FTE tenure/tenure-track faculty
41. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty
42. Faculty awards (limited to major awards, and top awards in key fields)
43. Institution and program rankings
44. Number of new invention disclosures
45. Number of patents issued
46. Number of licenses and options executed
47. Revenue from intellectual property
48. Number of new public start-up companies
49. Number of faculty and staff, disaggregated by ethnicity and gender
50. FTE student/FTE faculty ratio
51. Percent lower division semester credit hours taught by tenure/tenure-track faculty
52. Percent lower division semester credit hours taught by professional faculty
53. Number of postdoctoral fellows
54. Examples of high-priority externally funded research collaborations
55. Examples of high-priority educational collaborations
56. Faculty salaries and trends (national comparisons)

III. Service to and Collaborations with Communities
57. Contributions to K-12 education, and high-priority collaborations with schools and community colleges
58. Examples of economic impact (periodic studies), including economic impact of capital expenditures
59. Examples of high-priority collaborations with business, industry, health, public, and community organizations
60. Historically Underutilized Business trends
61. Sources of donor support (alumni, individuals, foundations, corporations, other)
<i>Proposed for 2005-06</i>
62. <i>Distance education trends</i>

IV. Organizational Efficiency and Productivity
63. Key operating revenue sources, disaggregated by source (i.e., state appropriations, tuition, etc.)
64. Key operating expenses, disaggregated by purpose
65. Adjusted total revenue (tuition, fees, state appropriations) per FTE student and per FTE faculty
66. Appropriated funds per FTE student and per FTE faculty
67. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty
68. Amount expended for administrative costs as a percent of expenditures
69. Assignable space per FTE student
70. Space utilization rate of classrooms and labs
71. Ratio of research expenditures to research E&G sq. ft.
72. Energy use ratios
73. Construction projects—total projected cost, number of projects, number of square feet to be added
74. Facility condition index
75. Small class trends

Performance Measures – U. T. System Health-Related Institutions

Five-year trends where data are available

Proposed additions in italics

I. Student Access and Success
1. Number of undergrad, grad, and professional students enrolled by school on the 12th class day, by ethnicity, gender, and level
2. Licensure/certification rate of allied health students
3. National board exam first-time pass rate for dental students
4. National board exam first-time pass rate for medical students
5. National licensure exam pass rates of graduate level nursing students (R.N., and advanced practice nursing)
6. Number of degrees awarded, by school, level, ethnicity, and gender
7. Graduation rates of medical, dental, nursing, allied health, public health, informatics, and graduate students
8. Medical student satisfaction (AAMC survey data)
<i>Proposed for 2005-06</i>
9. <i>Postgraduation experience (employment or enrollment in graduate/professional program one year after graduation of baccalaureate students)</i>
II. Teaching, Research, and Health Care Excellence
10. Dollar amount of research expenditures, disaggregated by funding source
11. Dollar amount of all sponsored revenue, by source
12. Amount of sponsored research expenditures as a percent of formula-derived general appropriations revenue
13. Number and percent of FTE tenure/tenure-track & FTE nontenure-track research faculty holding extramural grants
14. Ratio of research expenditures to FTE faculty
15. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty
16. Faculty awards (limited to major awards, and top awards in key fields)
17. Institution and program rankings
18. Number of new invention disclosures
19. Number of patents issued
20. Number of licenses and options executed
21. Revenue from intellectual property
22. Number of new public start-up companies
23. Number of faculty and staff, disaggregated by ethnicity, and gender
24. FTE student/FTE faculty ratio
25. Number of Accreditation Council for Graduate Medical Education-accredited resident programs
26. Number of residents in ACGME-accredited programs
27. State-owned and affiliated hospital admissions by U. T. institution faculty
28. State-owned and affiliated hospital days by U. T. institution faculty
29. Clinic visits in state-owned and affiliated facilities treated by U. T. institution faculty
30. Total charges for unsponsored charity care by faculty in state-owned and affiliated facilities
31. Patient satisfaction ratings
32. Examples of high-priority externally funded research collaborations
33. Examples of high-priority educational collaborations

Performance Measures – U. T. System Health-Related Institutions, continued

III. Service to and Collaborations with Communities
34. Examples of high-priority collaborations with schools
35. Examples of economic impact (periodic studies), including economic impact of capital expenditures
36. Examples of high-priority collaborations with business, health, industry, public, and community organizations
37. Historically Underutilized Business trends
38. Sources of donor support (alumni, individuals, foundations, corporations, other)
<i>Proposed for 2005-06</i>
39. <i>Distance education trends</i>

IV. Organizational Efficiency and Productivity
40. Key operating revenue sources, disaggregated by source (i.e. state appropriations, tuition, etc.)
41. Key operating expenses disaggregated by purpose
42. Ratio of admissions, charity care, hospital days, and clinic visits to General Revenue for state-owned hospital/clinic operations
43. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty
44. Amount expended for administrative costs as a percent of expenditures
45. Clinical billings and collections per FTE clinical faculty
46. Ratio of research expenditures to research E&G sq. ft.
47. Energy use ratios
48. Facility condition index
49. Construction projects—total projected cost, number of projects, # sq. ft. to be added

U. T. System Aggregate Measures
1. Total enrollments, percent increase over previous year
2. Comparison of total U. T. System enrollment increases with increases for all senior institutions in Texas
3. Number of total graduates as a percent of total graduates in state
4. Percent of U. T. Hispanic graduates as percent of all Hispanic graduates in state
5. Percent of U. T. Black graduates as percent of all Black graduates in state
6. Hispanic serving institutions in System
7. Total sponsored expenses
8. Total technology development (inventions, patents, license agreements, public start-ups, intellectual property income)
9. Total operating revenue by fund sources
10. Total operating expenditures by purpose
11. Total expenses for U. T. System Administration
12. Number and demographics of System employees (compare with State demographics)
13. U. T. System bond rating
14. Total patient care revenue
15. Total energy use

V. U. T. System Institution Measures – Institutional Profiles
National rankings (institutions and programs)
Peer comparisons (national peer groups specific to each institution)
Centers of excellence (specific to each institution)
Faculty awards – subfields, regional

14. **U. T. System Board of Regents: Resolution of appreciation to The Sealy & Smith Foundation**

RECOMMENDATION

It is recommended that The University of Texas System Board of Regents approve the following resolution to recognize The Sealy & Smith Foundation of Galveston for its historic and visionary philanthropy, which reached the \$500 million milestone in 2004 and which has, over the past eight decades, transformed The University of Texas Medical Branch at Galveston into a world-class academic medical center that remains forever committed to the health and well-being of its hometown neighbors, as well as the citizens of Texas.

RESOLUTION

WHEREAS, The Sealy & Smith Foundation, since its establishment in 1922 by Jennie Sealy Smith and John Sealy II, the heirs of John Sealy I, has perpetuated the Sealy family's longstanding tradition of visionary philanthropy to improve the health of the Galveston community;

WHEREAS, The Foundation has provided the crucial margin of excellence that has enabled the state's oldest academic medical center to serve the health needs of the citizens of Galveston, and by extension the entire State of Texas, through innovative patient care practices that have been developed in part through the University's robust research initiatives and its efforts to train generations of caregivers;

WHEREAS, The Sealy & Smith Foundation has generously provided for many of the buildings and much of the state-of-the-art equipment that enables The University of Texas Medical Branch to advance medical knowledge and medical practice in order to afford the people of Galveston and beyond access to world-class health care services and facilities;

WHEREAS, The Foundation has invested in the important work of dedicated clinicians who serve their patients with cutting-edge expertise, utmost skill, and deep compassion; creative educators of tomorrow's health workforce; and pioneering researchers whose groundbreaking discoveries advance the practice of medicine;

WHEREAS, By virtue of having contributed more than \$500 million to The University of Texas Medical Branch at Galveston over the course of its history, the Foundation is distinguished as the largest single contributor to any University of Texas System institution and is among the largest single contributors to any public medical school in the nation;

WHEREAS, This extraordinary tradition of philanthropy has been made possible by generations of Sealy & Smith Foundation leaders -- embodied most recently by Mr. Charles A. Worthen, President Emeritus, who led the Foundation from 1992 through 2004, and Mr. John Kelso, current President of the Foundation -- who have set the standard for charitable organizations in terms of a forward-thinking spirit, wise stewardship of resources, and a strategic approach to giving that yields maximum benefit for patients; and

WHEREAS, The University of Texas System Board of Regents is eternally grateful for the enduring support of The Sealy & Smith Foundation, which will continue to transform the health care landscape in Galveston and throughout Texas well into the future;

THEREFORE, BE IT RESOLVED this 11th day of August, 2005, that the Board of Regents of The University of Texas System formally recognizes The Sealy & Smith Foundation for its vital role in shaping not only The University of Texas Medical Branch and the health care environment in Galveston, but also the very nature of Texas medicine.

15. U. T. System Board of Regents: Resolution to honor former Southmost Union Junior College District Board of Trustees Chairman Mary Rose Cárdenas

RECOMMENDATION

It is recommended that the Board approve the following resolution to recognize the contributions of former Southmost Union Junior College District Board of Trustees Chairman Mary Rose Cárdenas to The University of Texas System:

RESOLUTION

WHEREAS, Mary Rose Cárdenas was first elected to the Texas Southmost College Board of Trustees in 1984;

WHEREAS, Mary Rose Cárdenas announced her retirement from the Texas Southmost College Board at Spring Commencement 2005 after 21 years of extraordinary service;

WHEREAS, During her tenure on the Board, Mary Rose Cárdenas was elected by her colleagues and served four terms as Chair of the Southmost Union Junior College District Board;

WHEREAS, In 1987, Mary Rose Cárdenas played a significant role in helping raise money and guide the establishment of a scholarship endowment program that has grown to over \$5 million and has helped over 10,000 students,

WHEREAS, In 1991, the inspiring leadership of Mrs. Cárdenas was key in helping create and design the historical academic partnership between U. T. Brownsville and Texas Southmost College making it the first such partnership in the State of Texas;

WHEREAS, Mary Rose Cárdenas has served as a key member of the Partnership Advisory Committee with Regents and Trustees;

WHEREAS, Mary Rose Cárdenas has been a guiding force in ensuring the success of the Partnership, and in 2000, together with U. T. Board Chairman Donald L. Evans, signed an extension of the Partnership for 99 years;

WHEREAS, Twice Mary Rose Cárdenas played a vital role in obtaining voters' approval for bond issues for capital improvements of the campus, first in 1986 and again in 2004, making available more than \$81 million for campus expansion;

WHEREAS, Mary Rose Cárdenas has served on the U. T. Brownsville and Texas Southmost College Development Board since its inception in 1994;

WHEREAS, Together with her husband, Renato, the Cárdenas Family has established an endowment at U. T. Brownsville and Texas Southmost College and has been enormously generous over the years in supporting music, the arts, science, chess, and innumerable student scholarships and activities;

WHEREAS, Mrs. Cárdenas was recognized nationally for her service to the college district as the 2002 recipient of the prestigious Distinguished Service Award from the Association of Governing Boards of Universities and Colleges;

WHEREAS, Mrs. Cárdenas was honored as the Texas Southmost College Distinguished Alumnus in 2004; and

WHEREAS, In her honor the Trustees of Texas Southmost College have named a building on their campus Mary Rose Cárdenas Hall North and South.

THEREFORE, BE IT RESOLVED that appreciation be extended to the incomparable and visionary Mary Rose Cárdenas for her 21 years of invaluable and unselfish service to Texas Southmost College and that it further commend her for her hard work and fairness in performing her duties; and be it further

RESOLVED that an official copy of this resolution be prepared for Mary Rose Cárdenas as an expression of highest esteem and warmest regards.

J. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND COMMITTEE REPORTS TO THE BOARD

The Standing Committees of the Board of Regents of The University of Texas System will meet as set forth below to consider recommendations on those matters on the agenda for each Committee listed in the Agenda Book. At the conclusion of each Standing Committee meeting, the report of that Committee will be formally presented to the Board for consideration and action.

Audit, Compliance, and Management Review Committee: Chairman Estrada
Agenda Book Page 25
No Items

Finance and Planning Committee: Chairman Rowling
Agenda Book Page 32

Academic Affairs Committee: Chairman Krier
Agenda Book Page 45

Health Affairs Committee: Chairman Clements
Agenda Book Page 66

Facilities Planning and Construction Committee: Chairman Barnhill
Agenda Book Page 84

K. RECONVENE AS COMMITTEE OF THE WHOLE AND RECESS TO EXECUTIVE SESSION (See Meeting of the Board Table of Contents Page iv)

L. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS

M. ADJOURN



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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 8/11/2005
U. T. Medical Branch - Galveston

Robert A. Estrada, Chairman
Rita C. Clements
Judith L. Craven, M.D.
Woody L. Hunt
Cyndi Taylor Krier

	Committee Meeting	Board Meeting	Page
A. Convene	8:00 a.m. <i>Chairman Estrada</i>		
1. U. T. System: Report on the status of the Fiscal Year 2005 U. T. System Financial Statements Audit	8:00 a.m. Report <i>Mr. Chaffin</i> <i>Mr. Wallace</i> <i>Mr. Rodney Lenfant,</i> <i>Ms. Julia Petty,</i> <i>Deloitte & Touche</i>	Not on Agenda	25
2. U. T. System: Report on the System-wide Internal Audit Activity	8:10 a.m. Report <i>Mr. Chaffin</i>	Not on Agenda	25
3. U. T. System: Report on audit peer reviews	8:15 a.m. Report <i>Mr. Chaffin</i> <i>Ms. Ramos,</i> <i>U. T. Brownsville</i> <i>Ms. Thomas,</i> <i>U. T. HSC –</i> <i>San Antonio</i>	Not on Agenda	27
4. U. T. System: Report on the System-wide Institutional Compliance Program Activity	8:20 a.m. Report <i>Mr. Chaffin</i>	Not on Agenda	27
5. U. T. System: Report on Research Compliance Initiatives	8:25 a.m. Report <i>Mr. Chaffin</i> <i>Mr. St. Onge</i> <i>Ms. Wishon, UTMB</i>	Not on Agenda	31

B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551	<i>Committee Meeting</i> 8:30 a.m.	Board Meeting
Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074	<i>Ms. Norma Ramos, UT Brownsville</i> <i>Ms. Diane Thomas, UTHSC - San Antonio</i> <i>Mr. Michael Holtrop,</i> <i>Mr. Terry Reeves,</i> <i>UTMB</i>	Not on Agenda
U. T. System: Discussion with institutional internal auditors and compliance officers concerning evaluation and duties of System and institutional employees involved in internal audit and compliance functions		
C. RECONVENE TO CONSIDER ANY ACTION FROM EXECUTIVE SESSION AND ADJOURN	8:55 a.m.	

1. **U. T. System: Report on the status of the Fiscal Year 2005 U. T. System Financial Statements Audit**

REPORT

Mr. Rodney Lenfant, Deloitte & Touche LLP, will report on the interim work performed relating to the Fiscal Year 2005 financial statement audit and the firm's plan for the completion of the audit.

BACKGROUND INFORMATION

In November 2003, the U. T. System Board of Regents approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in June 2004. Two proposals were received. After a review of the proposals and firm interviews by Committee Chairman Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP, at the July 16, 2004 Board of Regents' meeting. The contract, which terminates on April 1, 2006, provides U. T. System the option to renew for two additional one-year terms.

2. **U. T. System: Report on the System-wide Internal Audit Activity**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will report on System-wide audit activity including progress toward audit plan completion and the status of outstanding significant recommendations for the third quarter of Fiscal Year 2005.

The third quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 26.1 - 26.5. Additionally, a list of other audit reports issued by the System-wide audit program and the State Auditor's Office follows on Page 26.6.

There are two types of audit findings/recommendations: 1) reportable and 2) significant. A "reportable" audit finding/recommendation should be included in an audit report if it is material to the operation, financial reporting, or legal compliance of the audited activity, and the corrective action has not been fully implemented. "Significant" audit findings/recommendations are reportable audit findings/recommendations that are deemed significant at the institutional level by each U. T. institutional internal audit committee or designee.

Significant audit findings/recommendations are submitted to and tracked by the System Audit Office. Quarterly, the chief business officers are asked for the status of implementation; the internal audit directors verify implementation. A summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. System Board of Regents. Additionally, the Committee members receive quarterly a detailed summary of new significant recommendations.

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

26.1

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
1998-07	UTHSC-H	Federal Contracts & Grants Review		1		1	8/1/2005	Satisfactory	C
2000-04	UTHSC-H	Medical Service Research & Development Plan Summary of Operations Review		1		1	8/31/2005	Satisfactory	C
2001-08	UTMDACC	Lotus Notes Environment		2		2	11/15/2005	Satisfactory	O
2001-10	UTMDACC	Disaster Recovery/Business Continuity Planning		1		1	7/31/2005	Satisfactory	O
2001-11	UTT	Information Technology General Security Review		1		0	3/1/2005	Completed	O
2002-04	UTB	General Controls Audit of Information Technology		1		0	8/31/2005	Completed	O
2002-07	UTHSC-H	Healthcare Billing Compliance Review		1		0	8/31/2005	Completed	F, C
2002-08	UTHSC-SA	Institutional Compliance Program		2		1	9/1/2005	Satisfactory	C
2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		1	6/30/2005	Satisfactory	C, O
2002-11	UTMDACC	Temporary Personnel		1		1	6/30/2005	Satisfactory	O
2003-05	UTMB Galveston	Delivery of Operating Room Services		2		2	3/31/2006	Satisfactory	O
2003-06	UT Austin	University Data Center		1		0	3/15/2005	Completed	O
2003-06	UTA	Internal Audit Office Peer Review		1		0	6/30/2005	Completed	O
2003-06	UTD	General Controls		1		1	7/1/2005	Satisfactory	O
2003-08	UTMB Galveston	Pharmacy Costs of Goods Sold Review		1		1	9/30/2005	Satisfactory	O
2003-08	UTMB Galveston	School of Medicine Office of Student		1		1	6/30/2005	Satisfactory	C
2003-09	UTHC-T	Medical Services, Research and Development Plan AFR		1		1	8/31/2005	Unsatisfactory	F, O
2003-09	UTHSC-H	Quality Assessment of The Office of Auditing and Advisory Services		1		1	7/15/2005	Satisfactory	C, O
2003-09	UTSYS ADM	System Available Balances		1		1	6/30/2005	Satisfactory	F
2003-11	UTMDACC	Pharmacy Charge Capture		1		0	5/1/2005	Completed	O
2003-12	UTD	Lab and Biological Safety		1		1	12/31/2005	Satisfactory	C, O

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

26.2

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Institution's Fin. Stmt. ("F"), Compliance ("C"), and/or Operations ("O")
2004-01	UTEP	Information Technology - General Controls Review		1		1	8/31/2005	Satisfactory	O
2004-01	UTMDACC	2003 Mainframe Disaster Recovery Test		1		1	12/31/2005	Satisfactory	O
2004-01	UTMDACC	PeopleSoft Payroll		1		1	8/31/2005	Satisfactory	O
2004-02	UT Austin	Compliance Inspection: Account Reconciliation and Segregation of Duties		1		1	6/30/2005	Satisfactory	C
2004-02	UTHSC-SA	MSRDP Front-End Billing		3		3	8/31/2005	Satisfactory	O
2004-02	UTMB Galveston	Compliance Inspection: Account Reconciliation and Segregation of Duties		2		2	12/31/2005	Satisfactory	F, O
2004-03	UT Austin	Information Security Management		2		2	8/31/2005	Satisfactory	C, O
2004-03	UTB	Contracts and Grants		1		1	9/15/2005	Satisfactory	C, O
2004-03	UTPA	Accounts Receivable and Allowance for Bad Debts		2		2	8/31/2005	Satisfactory	C
2004-03	UTSA	Information Technology Organization and Planning Controls		2		2	11/30/2005	Satisfactory	F, O
2004-04	UTHC-T	Capital Assets FYE 8/31/03		2		2	8/31/2005	Unsatisfactory	C, O
2004-04	UTHC-T	Discretionary Funds		2		2	8/31/2005	Satisfactory	F, O
2004-05	UTA	Office of Research - Grants/Contracts		1		1	8/31/2005	Satisfactory	C
2004-06	UTB	2003 Financial and Applications Controls Audit of the Financial Aid Office		1		1	7/1/2005	Satisfactory	C, O
2004-06	UTHC-T	Surgical Services		1		0	5/31/2005	Completed	F, C, O
2004-07	UTEP	Facility Services		1		1	3/31/2006	Satisfactory	O

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

26.3

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Institution's Fin. Stmt. ("F"), Compliance ("C"), and/or Operations ("O")
2004-07	UTMB Galveston	Basic and Clinical Research Management (BACRM) & Contracts and Grants (C & G)		6		5	12/31/2005	Satisfactory	F, C, O
2004-08	UT Austin	Texas Box Office/Paciolan Ticketing System		1		1	11/30/2005	Satisfactory	O
2004-09	UTHC-T	Cash and Cash Equivalents		1		1	10/31/2005	Satisfactory	C, O
2004-09	UTMB Galveston	Agreed Upon Procedures on Financial Statement Fund Balance		4		4	11/30/2005	Satisfactory	F, O
2004-09	UTMB Galveston	Endowment Compliance Program of the Office of University Advancement ("OUA")		3		2	8/31/2005	Satisfactory	C, O
2004-09	UTPB	Lab Safety		4		3	8/31/2005	Satisfactory	C
2004-09	UTSA	Research Compliance - Time and Effort Reporting		1		1	8/31/2005	Satisfactory	C
2004-09	UTSA	Year End Financial Review for FY 2003		2		0	5/31/2005	Completed	F
2004-10	UTB	Physical Plant		3		3	9/30/2005	Satisfactory	C, O
2004-11	UTSA	Scholarship Management		1		1	8/31/2005	Satisfactory	O
2004-12	UTA	TAC 202 Information Security Compliance				1	8/31/2005	Satisfactory	C
2004-12	UTSA	Texas Administrative Code 202		4		2	12/31/2005	Satisfactory	O
2005-01	UTPA	NCAA Compliance Camps & Clinics		1		0	3/31/2005	Completed	C
2005-02	UT Austin	Credit Card Processing		1		1	6/30/2005	Satisfactory	O
2005-02	UTEP	Sub-recipient Grants		2		0	3/1/2005	Completed	O
2005-03	UTMB Galveston	Compliance Update with the HIPAA Final Security Rule				2	8/31/2005	Satisfactory	C, O
2005-03	UTSA	IT Vulnerability Assurance & Action Plan Follow-Up Report				1	9/1/2005	Satisfactory	O
2005-04	UTHC-T	TAC 202 Compliance				1	9/1/2007	Unsatisfactory	C

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
2005-04	UTT	East Texas Rural Fiscal and Physical Outreach Program Grant				1	12/31/2005	Satisfactory	C
2005-05	UTEP	Office of the Registrar				4	3/1/2006	Satisfactory	O
2005-05	UTSA	DEFINE Access Controls				2	7/1/2005	Satisfactory	O
Totals				<u>82</u>	<u>76</u>				

26.4

STATE AUDITOR'S OFFICE AUDITS

2002-05	UTMDACC	Statewide Single Audit report for Year Ended August 31, 2001		1		1	6/31/2005	Satisfactory	C
2002-09	UTB	A Financial Review		1		1	9/1/2005	Satisfactory	F
2002-11	UTMB	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		1		1	8/31/2005	Satisfactory	C
2002-11	UTMDACC	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		3		2	8/31/2005	Satisfactory	C
2004-02	UTSA	Financial Review		3		3	9/30/2005	Satisfactory	F
2004-06	UT Austin	Protection of Research Data at Higher Education Institutions		3		3	12/31/2005	Satisfactory	O
2004-06	UT Southwestern	Protection of Research Data at Higher Education Institutions		3		3	12/31/2005	Satisfactory	O
2004-06	UTHSC-SA	Protection of Research Data at Higher Education Institutions		3		3	8/31/2005	Satisfactory	O
2004-06	UTSYS ADM	Protection of Research Data at Higher Education Institutions		2		1	8/31/2005	Satisfactory	O
2004-10	UTHSC-H	Cash Controls		8		6	9/1/2005	Satisfactory	F
2005-02	UT Southwestern	Federal Portion of the Statewide Single Audit				0	9/1/2004	Completed	C
2005-02	UTMDACC	Federal Portion of the Statewide Single Audit				2	9/1/2005	Satisfactory	C
Totals				<u>28</u>	<u>26</u>				

n/a - State Auditor's Office recommendations are significant by definition.

Color Legend:

 Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention. Corrective action will be taken subsequent to the quarter in which the finding was reported.

 Significant progress toward resolution was made during the quarter in which the significant finding was first reported.

 A red or orange audit becomes a yellow when significant progress continues beyond the quarter in which the significant finding was first reported.

 All issues have been appropriately resolved, including any issues resolved during the quarter in which they were first reported.

Note: **Completed** - The institution Internal Audit Director deems the significant issues have been appropriately addressed and resolved.

Satisfactory - The institution Internal Audit Director believes that the significant issues are in the process of being addressed in a timely and appropriate fashion.

Unsatisfactory - The institution Internal Audit Director does not feel that the significant issues are being addressed in a timely and appropriate fashion.

3. U. T. System: Report on audit peer reviews

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will provide an update on external audit peer review activities at the institutions and U. T. System Administration.

Ms. Norma Ramos, Director of Internal Audits, U. T. Brownsville and Ms. Diane Thomas, Director of Internal Audits, U. T. Health Science Center - San Antonio will present the results of the recent peer reviews at their respective institutions.

4. U. T. System: Report on the System-wide Institutional Compliance Program Activity

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will report on the status of the System-wide Compliance Program. A summary report of the 3rd quarter activities is set forth on Pages 28 - 30. Activity reports are presented to the Audit, Compliance, and Management Review Committee on a quarterly basis.

**The University of Texas System
Institutional Compliance Program
3rd Quarter Report Summary, FY 2005**

Program Executive Summary

The purpose of the Institutional Compliance Program is to ensure that the UT System, the fifteen institutions, UTIMCO and System Administration are in compliance with all applicable laws, policies and regulations of the numerous bodies responsible for oversight of higher education institutions. This is achieved through institutional compliance risk assessments, awareness education, and ongoing monitoring. The System-wide Compliance Officer, Mr. Charles G. Chaffin, is responsible for apprising the Chancellor and the Board of Regents of the institutional compliance functions and activities. Each institution has appointed a compliance officer and established an appropriate reporting mechanism for program activities, using Compliance Committees that meet on average quarterly. During the 3rd quarter, 16 of the 17 institutional Compliance Committees reported that they met. Additionally, the following significant *organizational changes* have occurred this quarter: a new Director of Research Compliance was appointed at UT Arlington, at UT Dallas a new Compliance Coordinator was appointed and a new Director of Environmental Health and Safety was hired, at UT Tyler a New Director of Sponsored Research was appointed, additional members were added to the Institutional Compliance Committees at UT Southwestern and UT Pan American, and vacancies were posted in the positions of Institutional Compliance Program Director, Manager of Medical Billing Compliance and Manager of Health Care Billing Compliance at UT Health Science Center at Houston.

Summary of Quarterly Activity: The following *monitoring activities* were conducted by many of the institutions:

Risk Assessment – the following high-risk areas were assessed: employment discrimination, sexual harassment, IT use and password protection standards, SSN confidentiality and privacy issues, implementation of relevant Sarbanes-Oxley provisions, physician and non-physician licensing and data security.

Endowments (endowment compliance) – annual reports were completed and submitted to UT System. Additionally, the areas of expenditures and awarding of endowed scholarships were monitored.

Environmental Health and Safety (compliance with federal and state regulations) – the following areas were reviewed: chemical waste management, fire and disaster drills, radioactive material inventory, certification of hazardous materials and chemicals, sanitary sewer discharges, asbestos abatement projects, and food establishment inspections. Additionally, lab safety inspections and compliance audits were conducted.

Fiscal Matters (compliance with policies and procedures and established internal controls) – monitoring activities were performed in the areas of equipment inventory, procurement card activity and account reconciliation completion.

**The University of Texas System
Institutional Compliance Program
3rd Quarter Report Summary, FY 2005**

Human Resources – monitoring of compliance requirements for payroll activity, overtime activity and the processing of I9 forms.

Information Resources/Security (in clinical billing situations) – monitoring of compliance requirements for medical coding and billing and HIPAA compliance.

Intercollegiate Athletics – monitoring of NCAA compliance related to student eligibility, recruiting, and enrollment.

Research – monitoring of research compliance requirements related to human subject research, research conflicts of interest, unallowable costs, HUB requirements, and time and effort reporting.

Student Affairs (compliance with federal standards) – monitoring activities were performed in the areas of FERPA privacy compliance, international student and/or employee status tracking, federal aid disbursement activities, and student financial aid eligibility.

Assurance activities included: distribution of *Financial and Internal Controls Self Assessments*, reviews of Time and Effort Reporting, review of the implementation of State Bill 3015 – Tuition Deregulation, inspections of various high risk areas at several institutions, quality assurance reviews were conducted to validate management certifications, Fire Marshall inspections, and internal audits in the areas of grants and contracts and fiscal matters. Additionally, Compliance Program Peer reviews were completed for two of the institutions during the quarter.

Training Activities included: new employee training, general compliance training, Blood borne Pathogens, Fire Life Safety training, Radiation Safety training, Emergency Response training, Capitalized and Controlled Asset Removal and Transfer System (CCART) training, Equal Employment Opportunity training, sexual harassment and sexual misconduct training, HIPAA security rule training, IT security vs. privacy training, electronically protected health information compliance standards training, medical billing compliance training, management training, endowment compliance and endowment database training, I9 form training, student travel training, professional travel training, faculty tenure and promotion training, personnel effort reporting training of Grants and Contracts staff, student financial aid training, storm water training, HUB training, hazardous communications training, infectious substance shipping training, radiation safety and mold awareness training, FEMA National Response Plan training, IT system administrator server security training, records retention training, leave administration training, research coordinator training, clinical documentation training, IRB NIH training, physician training and SOX training all occurred this quarter.

Action Plan Activities

Many of the items identified in the Action Plans are in progress or completed at this time. These include, but are not limited to the following: revision and improvement of the

**The University of Texas System
Institutional Compliance Program
3rd Quarter Report Summary, FY 2005**

Institutional Compliance Training Program to include hospital operation and link the program to a new learning management system, updating of Management Responsibilities Handbook, updating the Standards of Conduct Guide, facilitation of compliance awareness surveys, modification of the endowment tracking system, improvement in documentation of hotline cases, compliance website updates and revisions, review and documentation of endowment files, correction of fire safety equipment, and overall training program revisions.

5. U. T. System: Report on Research Compliance Initiatives

REPORT

Research activities within the U. T. System are governed by federal and state laws and institutional policies and procedures. Noncompliance with these rules and regulations can result in significant penalties to the institution and, in some instances, to the individual researcher. Research compliance programs have been established at each institution to ensure compliance with grant management, time and effort reporting, protection of human subjects, the welfare of animals, the safe use of recombinant DNA, and pathogens and toxins and to enhance the ethical conduct.

Mr. Chaffin, Chief Audit Executive and System-wide Compliance Officer; Mr. Richard St. Onge, Assistant Vice Chancellor for Health Affairs; and Ms. Angela Wishon, Research Compliance Officer, U. T. Medical Branch - Galveston, will provide an update on several research compliance initiatives related to time and effort reporting, institutional review board accreditation, biosafety, and compliance audits.



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Board Meeting: 8/11/2005
U. T. Medical Branch - Galveston

*Robert B. Rowling, Chairman**
John W. Barnhill, Jr.
H. Scott Caven, Jr.
Woody L. Hunt
Cyndi Taylor Krier

	Committee Meeting	Board Meeting	Page
Convene	<i>3:45 p.m.</i> <i>Chairman Rowling</i>		
1. U. T. System: Approval of Docket No. 123	Not on Agenda	Action	32
2. U. T. System: Presentation of Monthly Financial Report	<i>3:45 p.m.</i> Report <i>Mr. Wallace</i>	Not on Agenda	32
3. U. T. System: Approval of transfer of funds between Legislative Appropriation items during the biennium beginning September 1, 2005	<i>3:50 p.m.</i> Action <i>Mr. Wallace</i>	Action	33
4. U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds	<i>3:52 p.m.</i> Action <i>Mr. Wallace</i>	Action	34
5. U. T. System: Approval of Optional Retirement Program employer contribution rates for Fiscal Year 2006	<i>3:55 p.m.</i> Action <i>Mr. Wallace</i>	Action	35
6. U. T. System Board of Regents: Report on Investments for quarter ended May 31, 2005, Liquidity Profile, and Performance Report by Ennis Knupp + Associates	<i>4:05 p.m.</i> Report <i>Mr. Boldt</i>	Report	37
7. U. T. System: Approval of aggregate amount of equipment financing for Fiscal Year 2006 and resolution regarding parity debt	<i>4:10 p.m.</i> Action <i>Mr. Aldridge</i>	Action	38

* Pending approval of Item B on Page 1.

	Committee Meeting	Board Meeting	Page
8. U. T. System: Permanent University Fund quarterly update	<i>4:13 p.m.</i> Report <i>Mr. Aldridge</i>	Not on Agenda	40
9. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds not to exceed \$300,000,000 and authorization to complete all related transactions	<i>4:20 p.m.</i> Action <i>Mr. Aldridge</i>	Action	41
10. U. T. System Board of Regents: Adoption of Fifteenth Supplemental Resolution authorizing Revenue Financing System Bonds in an amount not to exceed \$600,000,000; authorization to complete all related transactions; and resolution regarding parity debt	<i>4:25 p.m.</i> Action <i>Mr. Aldridge</i>	Action	42
Adjourn	<i>4:30 p.m.</i>		

1. **U. T. System: Approval of Docket No. 123**

RECOMMENDATION

It is recommended that *Docket No. 123*, printed on green paper at the back of the Agenda Book beginning on Page Docket - 1, be approved.

It is also recommended that the Board confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

2. **U. T. System: Presentation of Monthly Financial Report**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will present the June Monthly Financial Report (MFR), representing the operating results of the U. T. System institutions, as follows on Pages 32.1 - 32.26.

The MFR, prepared since 1990 to track the financial results of the institutions, compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year both in terms of dollars and percentages.



Monthly Financial Report

(Unaudited)

System Office:

*The University of Texas
System Administration*

Academic Institutions:

*The University of Texas
at Arlington*

*The University of Texas
at Austin*

*The University of Texas
at Brownsville*

*The University of Texas
at Dallas*

*The University of Texas
at El Paso*

*The University of Texas –
Pan American*

*The University of Texas
of the Permian Basin*

*The University of Texas
at San Antonio*

*The University of Texas
at Tyler*

Health Institutions:

*The University of Texas
Southwestern Medical Center
at Dallas*

*The University of Texas
Medical Branch at Galveston*

*The University of Texas Health
Science Center at Houston*

*The University of Texas Health
Science Center at San Antonio*

*The University of Texas
M.D. Anderson Cancer Center*

*The University of Texas Health
Center at Tyler*

June 2005

THE UNIVERSITY OF TEXAS SYSTEM
MONTHLY FINANCIAL REPORT
(Unaudited)
FOR THE TEN MONTHS ENDING
JUNE 30, 2005

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**The University of Texas System
Monthly Financial Report**

Foreword

The Monthly Financial Report (MFR) for 2005 compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

The data is reported in three sections: (1) Operating Revenues, (2) Operating Expenses and (3) Other Nonoperating Adjustments. Presentation of state appropriation revenues are required under GASB 35 to be reflected as nonoperating revenues, so all institutions will report an Operating Loss prior to this adjustment. The MFR provides an Adjusted Income (Loss), which takes into account the nonoperating adjustments associated with core operating activities. An Adjusted Margin (as a percentage of operating and nonoperating revenue adjustments) is calculated for each period and is intended to reflect relative operating contributions to financial health.

UNAUDITED
The University of Texas System
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$847,312,645	\$744,039,571	\$103,273,074	13.9%
Sponsored Programs	1,698,624,369	1,589,423,151	109,201,218	6.9%
Net Sales and Services of Educational Activities	160,503,869	124,530,484	35,973,385	28.9%
Net Sales and Services of Hospitals	1,843,248,729	1,528,971,158	314,277,571	20.6%
Net Professional Fees	652,401,026	593,540,399	58,860,627	9.9%
Net Auxiliary Enterprises	250,936,508	218,969,062	31,967,446	14.6%
Other Operating Revenues	150,168,267	135,158,672	15,009,595	11.1%
Total Operating Revenues	<u>5,603,195,413</u>	<u>4,934,632,497</u>	<u>668,562,916</u>	<u>13.5%</u>
Operating Expenses				
Salaries and Wages	3,518,607,589	3,235,685,116	282,922,473	8.7%
Payroll Related Costs	862,620,015	780,626,400	81,993,615	10.5%
Professional Fees and Contracted Services	205,831,027	183,919,157	21,911,870	11.9%
Other Contracted Services	251,128,601	231,696,829	19,431,772	8.4%
Scholarships and Fellowships	412,235,482	357,179,006	55,056,476	15.4%
Travel	78,324,356	67,785,832	10,538,524	15.5%
Materials and Supplies	776,226,092	666,581,389	109,644,703	16.4%
Utilities	154,229,343	134,773,967	19,455,376	14.4%
Telecommunications	53,408,175	51,313,771	2,094,404	4.1%
Repairs and Maintenance	106,888,734	95,917,680	10,971,054	11.4%
Rentals and Leases	73,267,558	66,052,664	7,214,894	10.9%
Printing and Reproduction	25,639,028	25,804,230	(165,202)	-0.6%
Bad Debt Expense	13,038	27,658	(14,620)	-52.9%
Claims and Losses	3,907,337	5,375,496	(1,468,159)	-27.3%
Federal Sponsored Programs Pass-Throughs	21,713,250	14,688,016	7,025,234	47.8%
Depreciation and Amortization	352,369,464	294,907,142	57,462,322	19.5%
Other Operating Expenses	341,575,846	306,263,802	35,312,044	11.5%
Total Operating Expenses	<u>7,237,984,935</u>	<u>6,518,598,155</u>	<u>719,386,780</u>	<u>11.0%</u>
Operating Loss	<u>(1,634,789,522)</u>	<u>(1,583,965,658)</u>	<u>(50,823,864)</u>	<u>-3.2%</u>
Other Nonoperating Adjustments				
State Appropriations	1,365,434,933	1,339,605,094	25,829,839	1.9%
Gift Contributions for Operations	208,590,675	156,564,334	52,026,341	33.2%
Net Investment Income	365,216,898	269,668,252	95,548,646	35.4%
Long Term Fund Distribution	142,628,185	135,029,463	7,598,722	5.6%
Interest Expense on Capital Asset Financings	(115,768,307)	(78,002,893)	(37,765,414)	-48.4%
Net Other Nonoperating Adjustments	<u>1,966,102,384</u>	<u>1,822,864,250</u>	<u>143,238,134</u>	<u>7.9%</u>
Adjusted Income (Loss)	331,312,862	238,898,592	92,414,270	38.7%
Adjusted Margin (as a percentage)	4.3%	3.5%		
Available University Fund Transfer	0	0	0	0.0%
Investment Gains (Losses)	1,503,219,691	1,497,703,520	5,516,171	0.4%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$1,834,532,553	\$1,736,602,112	\$97,930,441	5.6%
Adj. Margin % with Investment Gains (Losses)	20.0%	20.8%		

The University of Texas System
Comparison of Year-to-Date FY 2005 Adjusted Income (Loss)
to Year-to-Date FY 2004 Adjusted Income (Loss)
For the Ten Months Ending June 30, 2005

	Year-to-Date FY2005 Adjusted Income (Loss)	Year-to-Date FY2004 Adjusted Income (Loss)	Variance	Fluctuation Percentage	
UT System Administration	\$ 198,365,124	\$ 117,418,634	\$ 80,946,490	68.9%	(1)
UT Arlington	11,481,979	20,468,688	(8,986,709)	-43.9%	(2)
UT Austin	96,096,646	90,608,862	5,487,784	6.1%	
UT Brownsville	7,285,147	3,372,242	3,912,905	116.0%	(3)
UT Dallas	1,904,426	(1,471,951)	3,376,377	229.4%	(4)
UT El Paso	3,844,626	3,755,834	88,792	2.4%	
UT Pan American	1,503,880	4,934,358	(3,430,478)	-69.5%	(5)
UT Permian Basin	(2,235,662) (6)	(2,477,070)	241,408	9.7%	
UT San Antonio	23,350,470	17,223,838	6,126,632	35.6%	
UT Tyler	(1,555,590)	339,633	(1,895,223)	-558.0%	(7)
UT Southwestern Medical Center - Dallas	28,329,613	18,181,275	10,148,338	55.8%	(8)
UT Medical Branch - Galveston	(22,529,209)	(15,588,034)	(6,941,175)	-44.5%	(9)
UT Health Science Center - Houston	10,658,007	13,415,353	(2,757,346)	-20.6%	
UT Health Science Center - San Antonio	1,402,104	11,499,808	(10,097,704)	-87.8%	(10)
UT M. D. Anderson Cancer Center	64,357,608	44,193,981	20,163,627	45.6%	
UT Health Center - Tyler	(2,333,807) (11)	4,156,474	(6,490,281)	-156.1%	
Elimination of AUF Transfer	(88,612,500)	(91,133,333)	2,520,833	2.8%	
Total Adjusted Income (Loss)	<u>331,312,862</u>	<u>238,898,592</u>	<u>92,414,270</u>	<u>38.7%</u>	
Investment Gains (Losses)	1,503,219,691	1,497,703,520	5,516,171	0.4%	(12)
Total Adjusted Income (Loss) with Investment Gains (Losses)	<u>\$ 1,834,532,553</u>	<u>\$ 1,736,602,112</u>	<u>\$ 97,930,441</u>	<u>5.6%</u>	

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Ten Months Ending June 30, 2005

Explanations are provided for institutions having the largest variances in adjusted income (loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. Explanations are also provided for institutions with a current year-to-date adjusted loss.

- (1) UT System Administration – The \$80.9 million (68.9%) increase in adjusted income over the same period last year was primarily due to an increase in net investment income, including two mineral rights lease sales. Due to the elevated price of oil, the lease sales netted a higher than normal sale bonus of \$57.7 million, an increase of \$19.8 million over 2004.
 - (2) UT Arlington – The \$9 million (43.9%) decrease in adjusted income over the same period last year was primarily due to increased salaries and wages expense. The addition of 50 faculty positions, as well as a 3% merit increase contributed to the increase.
 - (3) UT Brownsville – The \$3.9 million (116%) increase in adjusted income over the same period last year was primarily due to increases in the Texas Southmost College contract and state appropriations. The contract increased by \$6.6 million in 2005 for a total contract price of \$23.5 million. State appropriations increased due to additional state paid staff benefits.
 - (4) UT Dallas – The \$3.4 million (229.4%) increase in adjusted income over the same period last year was primarily due to increased appropriations of \$3.3 million for the University Research Fund. The appropriation was eliminated in 2004, but was restored for 2005.
 - (5) UT Pan American – The \$3.4 million (69.5%) decrease in adjusted income over the same period last year was primarily due to increased salaries and wages expenses. In order to accommodate increasing enrollment, new faculty and staff positions were added. A 3% merit increase also contributed to the higher expenses.
 - (6) UT Permian Basin – The \$2.2 million year-to-date net loss was primarily due to additional faculty hired to accommodate increased student enrollment. This loss represents 7% of expenses to date. UT Permian Basin is anticipating ending the year with a \$2.5 million negative margin.
 - (7) UT Tyler – The \$1.9 million (558%) decline over the same period last year was primarily due to increased salaries and wages as well as increases in depreciation expense and interest expense related to three new capital projects. As a result of these factors, UT Tyler has a net loss of \$1.6 million. This loss represents 3% of expenses to date. UT Tyler planned to draw upon prior year net assets to transform from a two-year upper level commuter campus to a full four-year comprehensive university. Expansion is essential in all areas, including additional faculty, leasing of temporary classrooms, construction of new facilities, expanded student services and creation of athletic programs and facilities. UT Tyler is anticipating ending the year with a \$2.1 million negative margin.
 - (8) UT Southwestern Medical Center – Dallas – The \$10.1 million (55.8%) increase in adjusted income over the same period last year was primarily due to gift contributions for operations offset slightly with increased interest expense relating to new capital projects. Gifts increased \$13.2 million which includes a \$5 million cash gift for the Simmons Cancer Support Fund.
 - (9) UT Medical Branch – Galveston – The \$6.9 million (44.5%) increase in adjusted loss was primarily due to a decline in hospitals and clinics slightly offset by a \$7.1 million increase in Correctional Managed Health Care (CMHC) operations. UTMB Galveston has experienced a \$16 million decline in adjusted income in hospitals and clinics between years. UTMB Galveston received a reduction in Medicaid reimbursement rates in 2005 and nominal payment increases from Medicare, commercial and other payors. Additionally, UTMB Galveston has been facing severe inflationary pressures on nursing and other patient care provider salaries due to national shortages of these positions. Patient care supplies and other hospital expenses are also increasing.
- The decline in hospitals and clinics is offset by a \$7.1 million increase in CMHC. UTMB Galveston has experienced multiple years of CMHC funding decreases despite increasing inmate populations, aging of the inmate population, increased incidences of inmate chronic diseases and other inflationary expense factors. The legislature recently approved the university's request in emergency appropriations to cover 2005 losses. UTMB Galveston recognized \$27.2 million of revenue related to this request in June. The remaining \$3 million will be recognized in July and August financials.
- UTMB Galveston's net loss of \$22.5 million represents 1.9% of expenses to date. UTMB Galveston's management is projecting a negative margin of \$30.3 million. This projected loss

also includes \$49.5 million in noncash depreciation expense. Additionally, the projected loss does not include nonoperating revenue for capital gifts from the Sealy and Smith Foundation of \$20.7 million. *UTMB Galveston* is the sole beneficiary of the Sealy and Smith Foundation, and these gifts are integral to *UTMB Galveston's* financial success.

- (10) *UT Health Science Center – San Antonio* – The \$10.1 million (87.8%) decrease in adjusted income over the same period last year was primarily due to increased expenses associated with the South Texas programs which include the South Texas Border Initiative, the Regional Academic Health Center and the Laredo Campus. Approximately \$3.4 million of the funding received from the state in 2004 for these programs was not expended. *UTHSC-San Antonio* is expending these funds in the current year with no corresponding revenue, as the related revenue was recognized in the prior year. Additionally, interest expense and utility costs increased due to three new buildings placed into service in 2005.
- (11) *UT Health Center – Tyler* – The \$2.3 million year-to-date net loss was primarily due to decreased net sales and services of hospitals of \$5.1 million and decreased net professional fees of \$2.5 million. Both of these reductions are a result of decreases in admissions (14%), inpatient days (21%) and inpatient surgeries (22%). These decreases are region-wide and are not isolated to *UTHC – Tyler*. This loss represents 2.2% of expenses to date. *UTHC – Tyler* anticipates ending the year with a \$1 million negative margin.
- (12) *Investment Gains (Losses)* – The \$5.5 million (0.4%) improvement in investment gains over the same period last year was due to improved financial market conditions. The majority of the year-to-date gains relate to the Permanent University Fund (PUF) for \$978.6 million, the Long Term Fund (LTF) for \$422.3 million and the Permanent Health Fund (PHF) for \$99.8 million.

GLOSSARY OF TERMS

OPERATING REVENUES:

STUDENT TUITION AND FEES – All student tuition and fee revenues earned at the UT institution for educational purposes.

SPONSORED PROGRAMS – Funding received from local, state and federal governments or private agencies, organizations or individuals. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. This also includes indirect cost recoveries and pass-through federal and state grants.

NET SALES AND SERVICES OF EDUCATIONAL ACTIVITIES – Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold.

NET SALES AND SERVICES OF HOSPITALS – Revenues (net of discounts, allowances, and bad debt expense) generated from UT health institution's daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital.

NET PROFESSIONAL FEES – Revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at UT health institutions as part of the Medical Practice Plans. These revenues are also identified as Practice Plan income. Examples of such fees include doctor's fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens after a surgical procedure, etc.

NET AUXILIARY ENTERPRISES – Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.).

OTHER OPERATING REVENUES – Other revenues generated from sales or services provided to meet current fiscal year operating expenses, which are not included in the preceding categories (e.g., certified non profit healthcare company revenues, donated drugs, interest on student loans, etc.)

OPERATING EXPENSES:

SALARIES AND WAGES – Expenses for all salaries and wages of individuals employed by the institution including full-time, part-time, longevity, hourly, seasonal, etc.

PAYROLL RELATED COSTS – Expenses for all employee benefits paid by the institution or paid by the state on behalf of the institution.

PROFESSIONAL FEES AND CONTRACTED SERVICES – Payments for services rendered on a fee, contract, or other basis by a person, firm, corporation, or company recognized as possessing a high degree of learning and responsibility. Includes such items as services of a consultant, legal counsel, financial or audit fees, medical contracted services, guest lecturers (not employees) and expert witnesses.

OTHER CONTRACTED SERVICES – Payments for services rendered on a contractual basis by a person, firm, corporation or company that possess a lesser degree of learning and responsibility than that required for Professional Fees and Contracted Services. Includes such items as temporary employment expenses, fully insured medical plans expenses, janitorial services, dry cleaning services, etc.

SCHOLARSHIPS AND FELLOWSHIPS – Payments made for scholarship grants to students authorized by law.

TRAVEL – Payments for travel costs incurred during travel by employees, board or commission members and elected/appointed officials on state business.

MATERIALS AND SUPPLIES – Payments for consumable items. Includes, but is not limited to: computer consumables, office supplies, paper products, soap, lights, plants, fuels and lubricants, chemicals and gasses, medical supplies and copier supplies. Also includes postal services, and subscriptions and other publications not for permanent retention.

UTILITIES – Payments for the purchase of electricity, natural gas, water, thermal energy and waste disposal.

TELECOMMUNICATIONS - Electronically transmitted communications services (telephone, internet, computation center services, etc.).

REPAIRS AND MAINTENANCE – Payments for the maintenance and repair of equipment, furnishings, motor vehicles, buildings and other plant facilities. Includes, but is not limited to repair and maintenance to copy machines, furnishings, equipment – including medical and laboratory equipment, office equipment and aircraft.

RENTALS AND LEASES – Payments for rentals or leases of furnishings and equipment, vehicles, land and office buildings (all rental of space).

PRINTING AND REPRODUCTION – Printing and reproduction costs associated with the printing/copying of the institution's documents and publications.

BAD DEBT EXPENSE – Expenses incurred by the university related to nonrevenue receivables such as non-payment of student loans.

CLAIMS AND LOSSES – Payments for claims from self-insurance programs. Other claims for settlements and judgments are considered nonoperating expenses.

FEDERAL SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including other universities, of federal grants and contracts.

STATE SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including Texas universities.

DEPRECIATION AND AMORTIZATION – Depreciation on capital assets and amortization expense on intangible assets.

OTHER OPERATING EXPENSES – Other operating expenses not identified in other line items above (e.g., certified non profit healthcare company expenses, property taxes, insurance premiums, credit card fees, hazardous waste disposal expenses, meetings and conferences, etc.).

OPERATING LOSS – Total operating revenues less total operating expenses before other nonoperating adjustments like state appropriations.

OTHER NONOPERATING ADJUSTMENTS:

STATE APPROPRIATIONS – Appropriations from the State General Revenue fund, which supplement the UT institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support.

GIFT CONTRIBUTIONS FOR OPERATIONS – Consist of gifts from donors received for use in current operations, excluding gifts for capital acquisition and endowment gifts. Gifts for capital acquisition which can only be used to build or buy capital assets are excluded because they can not be used to support current operations. Endowment gifts must be held in perpetuity and can not be spent. The distributed income from endowment gifts must be spent according to the donor's stipulations.

NET INVESTMENT INCOME (on institutions' sheets) – Interest and dividend income on treasury balances, bank accounts, The Short Term Fund, the Short Intermediate Term Fund. It also includes distributed earnings from the Permanent Health Fund and patent and royalty income.

NET INVESTMENT INCOME (on the consolidated sheet) – Interest and dividend earnings of the Permanent University Fund, Short Term Fund, Short Intermediate Term Fund, Long Term Fund and Permanent Health Fund less Long Term Fund transfers so as not to overstate investment income. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

LONG TERM FUND DISTRIBUTION – At the institutional level, includes Long Term Fund fixed payouts approved by the Board of Regents. Investment income for System Administration and the consolidated sheet has been reduced for the amount of any Long Term Fund distribution so as not to overstate investment income system-wide.

INTEREST EXPENSE ON CAPITAL ASSET FINANCINGS – Interest expenses associated with bond and note borrowings utilized to finance capital improvement projects by an institution. This consists of the interest portion of mandatory debt service transfers under the Revenue Financing System, Tuition Revenue bond and Permanent University Fund (PUF) bond programs. PUF interest expense is reported on System Administration as the debt legally belongs to the Board of Regents.

ADJUSTED INCOME (LOSS) – Total operating revenues less total operating expenses plus net other nonoperating adjustments.

ADJUSTED MARGIN (as a percentage) – Percentage of Adjusted Income (Loss) divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

AVAILABLE UNIVERSITY FUND TRANSFER – Includes Available University Fund (AUF) transfer to System Administration for Educational and General operations and to UT Austin for Excellence Funding. These transfers are funded by investment earnings from the Permanent University Fund (PUF), which are required by law to be reported in the PUF at System Administration. On the MFR, investment income for System Administration has been reduced for the amount of the System Administration transfer so as not to overstate investment income for System Administration. The AUF transfers are eliminated at the consolidated level to avoid overstating System-wide revenues, as the amounts will be reflected as transfers at year-end.

INVESTMENT GAINS (LOSSES) – Realized and unrealized gains and losses on investments.

UNAUDITED
The University of Texas System Administration
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	<u>June</u> <u>Year-to-Date</u> <u>FY 2005</u>	<u>June</u> <u>Year-to-Date</u> <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation</u> <u>Percentage</u>
Operating Revenues				
Sponsored Programs	\$8,117,629	\$7,054,632	\$1,062,997	15.1%
Net Sales and Services of Educational Activities	12,901,961	6,983,524	5,918,437	84.7%
Other Operating Revenues	9,972,226	5,637,988	4,334,238	76.9%
Total Operating Revenues	<u>30,991,816</u>	<u>19,676,144</u>	<u>11,315,672</u>	<u>57.5%</u>
Operating Expenses				
Salaries and Wages	19,221,669	17,972,530	1,249,139	7.0%
Employee Benefits and Related Costs	4,253,812	4,033,764	220,048	5.5%
Professional Fees and Contracted Services	1,518,128	4,572,140	(3,054,012)	-66.8%
Other Contracted Services	5,340,745	5,172,734	168,011	3.2%
Scholarships and Fellowships	102,000	63,000	39,000	61.9%
Travel	1,151,654	813,601	338,053	41.6%
Materials and Supplies	2,804,964	2,909,292	(104,328)	-3.6%
Utilities	20,374	21,991	(1,617)	-7.4%
Telecommunications	1,242,766	1,884,413	(641,647)	-34.1%
Repairs and Maintenance	835,042	693,370	141,672	20.4%
Rentals and Leases	876,085	379,864	496,221	130.6%
Printing and Reproduction	152,370	132,697	19,673	14.8%
Claims and Losses	3,907,337	5,375,496	(1,468,159)	-27.3%
Depreciation and Amortization	1,339,489	1,250,291	89,198	7.1%
Other Operating Expenses	2,185,983	5,555,326	(3,369,343)	-60.7%
Total Operating Expenses	<u>44,952,418</u>	<u>50,830,509</u>	<u>(5,878,091)</u>	<u>-11.6%</u>
Operating Loss	<u>(13,960,602)</u>	<u>(31,154,365)</u>	<u>17,193,763</u>	<u>55.2%</u>
Other Nonoperating Adjustments				
State Appropriations	832,484	832,488	(4)	0.0%
Gift Contributions for Operations	367,373	466,065	(98,692)	-21.2%
Net Investment Income	210,006,107	141,262,457	68,743,650	48.7%
Long Term Fund Distribution	6,099,108	7,280,758	(1,181,650)	-16.2%
Interest Expense on Capital Asset Financings	(28,095,529)	(24,532,701)	(3,562,828)	-14.5%
Net Other Nonoperating Adjustments	<u>189,209,543</u>	<u>125,309,067</u>	<u>63,900,476</u>	<u>51.0%</u>
Adjusted Income (Loss)	175,248,941	94,154,702	81,094,239	86.1%
Adjusted Margin (as a percentage)	70.6%	55.5%		
Available University Fund Transfer	23,116,183	23,263,932	(147,749)	-0.6%
Adjusted Income (Loss) with AUF Transfer	198,365,124	117,418,634	80,946,490	68.9%
Adjusted Margin % with AUF Transfer	73.1%	60.9%		
Investment Gains (Losses)	1,501,939,625	1,479,791,327	22,148,298	1.5%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	\$1,700,304,749	\$1,597,209,961	\$103,094,788	6.5%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	97.1%	96.8%		

UNAUDITED
The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$101,487,079	\$96,949,178	\$4,537,901	4.7%
Sponsored Programs	40,938,061	35,826,715	5,111,346	14.3%
Net Sales and Services of Educational Activities	5,805,022	4,622,583	1,182,439	25.6%
Net Auxiliary Enterprises	16,791,497	15,494,937	1,296,560	8.4%
Other Operating Revenues	5,359,724	3,560,937	1,798,787	50.5%
Total Operating Revenues	<u>170,381,383</u>	<u>156,454,350</u>	<u>13,927,033</u>	<u>8.9%</u>
Operating Expenses				
Salaries and Wages	119,568,024	110,766,957	8,801,067	7.9%
Employee Benefits and Related Costs	26,434,057	24,541,640	1,892,417	7.7%
Professional Fees and Contracted Services	3,462,635	1,865,999	1,596,636	85.6%
Other Contracted Services	5,860,542	4,361,678	1,498,864	34.4%
Scholarships and Fellowships	33,353,262	27,051,937	6,301,325	23.3%
Travel	3,222,173	2,660,857	561,316	21.1%
Materials and Supplies	13,387,050	13,518,167	(131,117)	-1.0%
Utilities	7,575,154	6,269,292	1,305,862	20.8%
Telecommunications	2,337,043	1,923,023	414,020	21.5%
Repairs and Maintenance	6,251,084	5,618,762	632,322	11.3%
Rentals and Leases	2,037,951	1,529,605	508,346	33.2%
Printing and Reproduction	1,657,936	1,886,534	(228,598)	-12.1%
Federal Sponsored Programs Pass-Thrus	228,697	0	228,697	100.0%
Depreciation and Amortization	10,870,590	10,125,514	745,076	7.4%
Other Operating Expenses	6,219,076	4,569,044	1,650,032	36.1%
Total Operating Expenses	<u>242,465,274</u>	<u>216,689,009</u>	<u>25,776,265</u>	<u>11.9%</u>
Operating Loss	<u>(72,083,891)</u>	<u>(60,234,659)</u>	<u>(11,849,232)</u>	<u>-19.7%</u>
Other Nonoperating Adjustments				
State Appropriations	83,694,050	80,638,860	3,055,190	3.8%
Gift Contributions for Operations	2,238,216	1,552,860	685,356	44.1%
Net Investment Income	2,008,411	1,133,364	875,047	77.2%
Long Term Fund Distribution	1,753,121	1,530,373	222,748	14.6%
Interest Expense on Capital Asset Financings	(6,127,928)	(4,152,110)	(1,975,818)	-47.6%
Net Other Nonoperating Adjustments	<u>83,565,870</u>	<u>80,703,347</u>	<u>2,862,523</u>	<u>3.5%</u>
Adjusted Income (Loss)	11,481,979	20,468,688	(8,986,709)	-43.9%
Adjusted Margin (as a percentage)	4.4%	8.5%		
Investment Gains (Losses)	(5,872)	(88,295)	82,423	93.3%
Adjusted Income (Loss) with Investment Gains (Losses)	\$11,476,107	\$20,380,393	(\$8,904,286)	-43.7%
Adjusted Margin % with Investment Gains (Losses)	4.4%	8.4%		

UNAUDITED
The University of Texas at Austin
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	<u>June</u> <u>Year-to-Date</u> <u>FY 2005</u>	<u>June</u> <u>Year-to-Date</u> <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation</u> <u>Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$354,576,035	\$320,087,753	\$34,488,282	10.8%
Sponsored Programs	329,462,820	307,007,659	22,455,161	7.3%
Net Sales and Services of Educational Activities	86,241,218	65,772,368	20,468,850	31.1%
Net Auxiliary Enterprises	131,591,611	128,772,753	2,818,858	2.2%
Other Operating Revenues	8,175,014	3,912,700	4,262,314	108.9%
Total Operating Revenues	910,046,698	825,553,233	84,493,465	10.2%
Operating Expenses				
Salaries and Wages	651,298,605	608,261,577	43,037,028	7.1%
Employee Benefits and Related Costs	144,498,638	138,384,466	6,114,172	4.4%
Professional Fees and Contracted Services	15,879,609	18,305,336	(2,425,727)	-13.3%
Other Contracted Services	48,051,210	42,964,794	5,086,416	11.8%
Scholarships and Fellowships	133,678,819	115,498,985	18,179,834	15.7%
Travel	25,506,639	21,915,939	3,590,700	16.4%
Materials and Supplies	78,285,720	70,891,328	7,394,392	10.4%
Utilities	43,909,944	37,618,890	6,291,054	16.7%
Telecommunications	11,097,594	10,511,594	586,000	5.6%
Repairs and Maintenance	17,406,412	16,972,155	434,257	2.6%
Rentals and Leases	10,804,155	10,592,457	211,698	2.0%
Printing and Reproduction	7,057,910	7,472,312	(414,402)	-5.5%
Federal Sponsored Programs Pass-Thrus	4,200,549	1,613,596	2,586,953	160.3%
Depreciation and Amortization	71,105,103	66,202,909	4,902,194	7.4%
Other Operating Expenses	41,462,753	38,964,385	2,498,368	6.4%
Total Operating Expenses	1,304,243,660	1,206,170,723	98,072,937	8.1%
Operating Loss	(394,196,962)	(380,617,490)	(13,579,472)	-3.6%
Other Nonoperating Adjustments				
State Appropriations	259,821,084	259,199,732	621,352	0.2%
Gift Contributions for Operations	67,478,851	53,135,598	14,343,253	27.0%
Net Investment Income	18,698,589	11,216,853	7,481,736	66.7%
Long Term Fund Distribution	73,636,241	70,100,704	3,535,537	5.0%
Interest Expense on Capital Asset Financings	(17,953,657)	(13,559,868)	(4,393,789)	-32.4%
Net Other Nonoperating Adjustments	401,681,108	380,093,019	21,588,089	5.7%
Adjusted Income (Loss)	7,484,146	(524,471)	8,008,617	1,527.0%
Adjusted Margin (as a percentage)	0.6%	-0.0%		
Available University Fund Transfer	88,612,500	91,133,333	(2,520,833)	-2.8%
Adjusted Income (Loss) with AUF Transfer	96,096,646	90,608,862	\$5,487,784	6.1%
Adjusted Margin % with AUF Transfer	6.8%	6.9%		
Investment Gains (Losses)	(69,370)	(224,297)	154,927	69.1%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	\$96,027,276	\$90,384,565	\$5,642,711	6.2%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	7.2%	7.4%		

UNAUDITED
The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$8,014,214	\$5,622,366	\$2,391,848	42.5%
Sponsored Programs	87,818,735	76,103,508	11,715,227	15.4%
Net Sales and Services of Educational Activities	1,029,875	1,682,052	(652,177)	-38.8%
Net Auxiliary Enterprises	808,504	685,437	123,067	18.0%
Other Operating Revenues	19,123	8,616	10,507	121.9%
Total Operating Revenues	<u>97,690,451</u>	<u>84,101,979</u>	<u>13,588,472</u>	<u>16.2%</u>
Operating Expenses				
Salaries and Wages	37,056,313	35,184,076	1,872,237	5.3%
Employee Benefits and Related Costs	8,854,200	7,938,417	915,783	11.5%
Professional Fees and Contracted Services	1,410,975	1,369,830	41,145	3.0%
Scholarships and Fellowships	44,677,942	37,965,569	6,712,373	17.7%
Travel	718,070	565,853	152,217	26.9%
Materials and Supplies	3,172,301	2,537,548	634,753	25.0%
Utilities	2,052,411	1,820,552	231,859	12.7%
Telecommunications	973,017	882,606	90,411	10.2%
Repairs and Maintenance	644,606	505,050	139,556	27.6%
Rentals and Leases	1,757,263	1,621,429	135,834	8.4%
Printing and Reproduction	275,838	308,754	(32,916)	-10.7%
Bad Debt Expense	11,844	10,224	1,620	15.8%
Federal Sponsored Programs Pass-Thrus	45,215	0	45,215	100.0%
Depreciation and Amortization	2,375,857	2,403,921	(28,064)	-1.2%
Other Operating Expenses	7,707,670	6,214,217	1,493,453	24.0%
Total Operating Expenses	<u>111,733,522</u>	<u>99,328,046</u>	<u>12,405,476</u>	<u>12.5%</u>
Operating Loss	<u>(14,043,071)</u>	<u>(15,226,067)</u>	<u>1,182,996</u>	<u>7.8%</u>
Other Nonoperating Adjustments				
State Appropriations	21,888,425	19,640,758	2,247,667	11.4%
Gift Contributions for Operations	223,950	284,024	(60,074)	-21.2%
Net Investment Income	620,090	259,644	360,446	138.8%
Long Term Fund Distribution	169,482	182,661	(13,179)	-7.2%
Interest Expense on Capital Asset Financings	(1,573,729)	(1,768,778)	195,049	11.0%
Net Other Nonoperating Adjustments	<u>21,328,218</u>	<u>18,598,309</u>	<u>2,729,909</u>	<u>14.7%</u>
Adjusted Income (Loss)	7,285,147	3,372,242	3,912,905	116.0%
Adjusted Margin (as a percentage)	6.0%	3.2%		
Investment Gains (Losses)	26,347	106,008	(79,661)	-75.1%
Adjusted Income (Loss) with Investment Gains (Losses)	\$7,311,494	\$3,478,250	\$3,833,244	110.2%
Adjusted Margin % with Investment Gains (Losses)	6.1%	3.3%		

UNAUDITED
The University of Texas at Dallas
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$81,332,692	\$70,612,915	\$10,719,777	15.2%
Sponsored Programs	33,444,143	24,596,520	8,847,623	36.0%
Net Sales and Services of Educational Activities	4,851,636	3,882,481	969,155	25.0%
Net Auxiliary Enterprises	5,025,774	4,154,491	871,283	21.0%
Other Operating Revenues	3,494,738	3,085,107	409,631	13.3%
Total Operating Revenues	<u>128,148,983</u>	<u>106,331,514</u>	<u>21,817,469</u>	<u>20.5%</u>
Operating Expenses				
Salaries and Wages	92,454,691	84,870,517	7,584,174	8.9%
Employee Benefits and Related Costs	18,421,539	16,642,038	1,779,501	10.7%
Professional Fees and Contracted Services	3,286,378	1,768,381	1,517,997	85.8%
Other Contracted Services	5,867,205	4,221,365	1,645,840	39.0%
Scholarships and Fellowships	32,144,466	27,356,616	4,787,850	17.5%
Travel	2,324,033	2,215,068	108,965	4.9%
Materials and Supplies	10,044,342	9,373,897	670,445	7.2%
Utilities	4,543,804	4,810,879	(267,075)	-5.6%
Telecommunications	1,261,481	1,149,393	112,088	9.8%
Repairs and Maintenance	4,320,375	2,834,964	1,485,411	52.4%
Rentals and Leases	561,814	538,871	22,943	4.3%
Printing and Reproduction	1,042,266	806,677	235,589	29.2%
Federal Sponsored Programs Pass-Thrus	681,941	183,789	498,152	271.0%
Depreciation and Amortization	12,198,204	9,359,729	2,838,475	30.3%
Other Operating Expenses	5,104,489	4,091,316	1,013,173	24.8%
Total Operating Expenses	<u>194,257,028</u>	<u>170,223,500</u>	<u>24,033,528</u>	<u>14.1%</u>
Operating Loss	<u>(66,108,045)</u>	<u>(63,891,986)</u>	<u>(2,216,059)</u>	<u>-3.5%</u>
Other Nonoperating Adjustments				
State Appropriations	58,491,750	54,214,659	4,277,091	7.9%
Gift Contributions for Operations	3,972,725	3,939,689	33,036	0.8%
Net Investment Income	2,594,454	1,499,799	1,094,655	73.0%
Long Term Fund Distribution	5,581,222	5,347,678	233,544	4.4%
Interest Expense on Capital Asset Financings	(2,627,680)	(2,581,790)	(45,890)	-1.8%
Net Other Nonoperating Adjustments	<u>68,012,471</u>	<u>62,420,035</u>	<u>5,592,436</u>	<u>9.0%</u>
Adjusted Income (Loss)	1,904,426	(1,471,951)	3,376,377	229.4%
Adjusted Margin (as a percentage)	1.0%	-0.9%		
Investment Gains (Losses)	35,383	(378,422)	413,805	109.4%
Adjusted Income (Loss) with Investment Gains (Losses)	\$1,939,809	(\$1,850,373)	\$3,790,182	204.8%
Adjusted Margin % with Investment Gains (Losses)	1.0%	-1.1%		

UNAUDITED
The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$61,036,392	\$51,152,930	\$9,883,462	19.3%
Sponsored Programs	62,658,609	62,546,046	112,563	0.2%
Net Sales and Services of Educational Activities	2,954,710	3,028,265	(73,555)	-2.4%
Net Auxiliary Enterprises	19,522,265	16,020,305	3,501,960	21.9%
Other Operating Revenues	34,264	105,434	(71,170)	-67.5%
Total Operating Revenues	<u>146,206,240</u>	<u>132,852,980</u>	<u>13,353,260</u>	<u>10.1%</u>
Operating Expenses				
Salaries and Wages	92,803,500	85,482,363	7,321,137	8.6%
Employee Benefits and Related Costs	20,618,761	19,068,099	1,550,662	8.1%
Professional Fees and Contracted Services	3,824,899	3,687,807	137,092	3.7%
Other Contracted Services	8,507,940	9,025,288	(517,348)	-5.7%
Scholarships and Fellowships	42,577,997	40,368,549	2,209,448	5.5%
Travel	4,772,990	3,784,612	988,378	26.1%
Materials and Supplies	16,779,991	12,820,067	3,959,924	30.9%
Utilities	5,002,981	4,486,025	516,956	11.5%
Telecommunications	852,488	739,054	113,434	15.3%
Repairs and Maintenance	2,513,670	2,226,154	287,516	12.9%
Rentals and Leases	1,282,537	1,031,708	250,829	24.3%
Printing and Reproduction	921,638	615,244	306,394	49.8%
Federal Sponsored Programs Pass-Thrus	408,001	364,151	43,850	12.0%
Depreciation and Amortization	8,151,202	7,739,168	412,034	5.3%
Other Operating Expenses	3,700,407	4,178,838	(478,431)	-11.4%
Total Operating Expenses	<u>212,719,002</u>	<u>195,617,127</u>	<u>17,101,875</u>	<u>8.7%</u>
Operating Loss	<u>(66,512,762)</u>	<u>(62,764,147)</u>	<u>(3,748,615)</u>	<u>-6.0%</u>
Other Nonoperating Adjustments				
State Appropriations	62,833,892	60,202,455	2,631,437	4.4%
Gift Contributions for Operations	4,522,166	4,218,350	303,816	7.2%
Net Investment Income	2,576,276	1,917,333	658,943	34.4%
Long Term Fund Distribution	3,615,244	3,352,627	262,617	7.8%
Interest Expense on Capital Asset Financings	(3,190,190)	(3,170,784)	(19,406)	-0.6%
Net Other Nonoperating Adjustments	<u>70,357,388</u>	<u>66,519,981</u>	<u>3,837,407</u>	<u>5.8%</u>
Adjusted Income (Loss)	3,844,626	3,755,834	88,792	2.4%
Adjusted Margin (as a percentage)	1.7%	1.9%		
Investment Gains (Losses)	1,909	(117,997)	119,906	101.6%
Adjusted Income (Loss) with Investment Gains (Losses)	\$3,846,535	\$3,637,837	\$208,698	5.7%
Adjusted Margin % with Investment Gains (Losses)	1.8%	1.8%		

UNAUDITED
The University of Texas-Pan American
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$46,640,959	\$40,516,345	\$6,124,614	15.1%
Sponsored Programs	56,516,753	51,549,328	4,967,425	9.6%
Net Sales and Services of Educational Activities	4,086,895	4,460,140	(373,245)	-8.4%
Net Auxiliary Enterprises	6,263,800	6,262,160	1,640	0.0%
Other Operating Revenues	687,878	1,294,778	(606,900)	-46.9%
Total Operating Revenues	<u>114,196,285</u>	<u>104,082,751</u>	<u>10,113,534</u>	<u>9.7%</u>
Operating Expenses				
Salaries and Wages	64,881,437	60,453,031	4,428,406	7.3%
Employee Benefits and Related Costs	15,046,787	13,875,964	1,170,823	8.4%
Professional Fees and Contracted Services	514,177	523,147	(8,970)	-1.7%
Other Contracted Services	3,737,577	3,853,825	(116,248)	-3.0%
Scholarships and Fellowships	50,161,483	42,254,772	7,906,711	18.7%
Travel	2,372,693	2,191,466	181,227	8.3%
Materials and Supplies	9,968,437	8,857,615	1,110,822	12.5%
Utilities	4,494,963	3,931,249	563,714	14.3%
Telecommunications	757,762	675,936	81,826	12.1%
Repairs and Maintenance	1,145,287	983,733	161,554	16.4%
Rentals and Leases	498,710	390,415	108,295	27.7%
Printing and Reproduction	608,199	636,324	(28,125)	-4.4%
Federal Sponsored Programs Pass-Thrus	8,755	60,146	(51,391)	-85.4%
Depreciation and Amortization	5,784,020	6,426,680	(642,660)	-10.0%
Other Operating Expenses	3,745,916	2,674,583	1,071,333	40.1%
Total Operating Expenses	<u>163,726,203</u>	<u>147,788,886</u>	<u>15,937,317</u>	<u>10.8%</u>
Operating Loss	<u>(49,529,918)</u>	<u>(43,706,135)</u>	<u>(5,823,783)</u>	<u>-13.3%</u>
Other Nonoperating Adjustments				
State Appropriations	49,669,039	47,872,367	1,796,672	3.8%
Gift Contributions for Operations	1,300,217	1,195,950	104,267	8.7%
Net Investment Income	1,188,481	1,208,794	(20,313)	-1.7%
Long Term Fund Distribution	869,776	796,362	73,414	9.2%
Interest Expense on Capital Asset Financings	(1,993,715)	(2,432,980)	439,265	18.1%
Net Other Nonoperating Adjustments	<u>51,033,798</u>	<u>48,640,493</u>	<u>2,393,305</u>	<u>4.9%</u>
Adjusted Income (Loss)	1,503,880	4,934,358	(3,430,478)	-69.5%
Adjusted Margin (as a percentage)	0.9%	3.2%		
Investment Gains (Losses)	197,593	57,982	139,611	240.8%
Adjusted Income (Loss) with Investment Gains (Losses)	\$1,701,473	\$4,992,340	(\$3,290,867)	-65.9%
Adjusted Margin % with Investment Gains (Losses)	1.0%	3.2%		

UNAUDITED
The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$8,787,327	\$6,623,719	\$2,163,608	32.7%
Sponsored Programs	4,357,724	4,261,589	96,135	2.3%
Net Sales and Services of Educational Activities	220,904	183,208	37,696	20.6%
Net Auxiliary Enterprises	1,206,340	750,948	455,392	60.6%
Other Operating Revenues	195,502	187,917	7,585	4.0%
Total Operating Revenues	<u>14,767,797</u>	<u>12,007,381</u>	<u>2,760,416</u>	<u>23.0%</u>
Operating Expenses				
Salaries and Wages	12,497,119	11,260,526	1,236,593	11.0%
Employee Benefits and Related Costs	2,862,132	2,420,036	442,096	18.3%
Professional Fees and Contracted Services	837,833	718,414	119,419	16.6%
Other Contracted Services	667,871	804,584	(136,713)	-17.0%
Scholarships and Fellowships	5,842,131	5,324,359	517,772	9.7%
Travel	561,357	616,006	(54,649)	-8.9%
Materials and Supplies	1,711,263	1,844,880	(133,617)	-7.2%
Utilities	1,430,742	1,324,794	105,948	8.0%
Telecommunications	357,330	373,435	(16,105)	-4.3%
Repairs and Maintenance	587,400	270,805	316,595	116.9%
Rentals and Leases	226,919	273,196	(46,277)	-16.9%
Printing and Reproduction	213,559	279,637	(66,078)	-23.6%
Depreciation and Amortization	2,046,440	1,822,050	224,390	12.3%
Other Operating Expenses	696,533	696,996	(463)	-0.1%
Total Operating Expenses	<u>30,538,629</u>	<u>28,029,718</u>	<u>2,508,911</u>	<u>9.0%</u>
Operating Loss	<u>(15,770,832)</u>	<u>(16,022,337)</u>	<u>251,505</u>	<u>1.6%</u>
Other Nonoperating Adjustments				
State Appropriations	13,055,470	13,014,610	40,860	0.3%
Gift Contributions for Operations	1,221,454	964,996	256,458	26.6%
Net Investment Income	117,329	65,801	51,528	78.3%
Long Term Fund Distribution	489,267	467,850	21,417	4.6%
Interest Expense on Capital Asset Financings	(1,348,350)	(967,990)	(380,360)	-39.3%
Net Other Nonoperating Adjustments	<u>13,535,170</u>	<u>13,545,267</u>	<u>(10,097)</u>	<u>-0.1%</u>
Adjusted Income (Loss)	(2,235,662)	(2,477,070)	241,408	9.7%
Adjusted Margin (as a percentage)	-7.5%	-9.3%		
Investment Gains (Losses)	40,464	50,722	(10,258)	-20.2%
Adjusted Income (Loss) with Investment Gains (Losses)	(\$2,195,198)	(\$2,426,348)	\$231,150	9.5%
Adjusted Margin % with Investment Gains (Losses)	-7.4%	-9.1%		

UNAUDITED
The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$118,634,408	\$93,323,393	\$25,311,015	27.1%
Sponsored Programs	55,725,830	49,547,165	6,178,665	12.5%
Net Sales and Services of Educational Activities	4,969,160	4,694,254	274,906	5.9%
Net Auxiliary Enterprises	12,708,856	4,091,482	8,617,374	210.6%
Other Operating Revenues	813,676	752,173	61,503	8.2%
Total Operating Revenues	<u>192,851,930</u>	<u>152,408,467</u>	<u>40,443,463</u>	<u>26.5%</u>
Operating Expenses				
Salaries and Wages	107,454,324	95,389,520	12,064,804	12.6%
Employee Benefits and Related Costs	25,019,045	21,476,634	3,542,411	16.5%
Professional Fees and Contracted Services	2,739,424	2,081,807	657,617	31.6%
Other Contracted Services	2,469,516	1,836,764	632,752	34.4%
Scholarships and Fellowships	46,774,154	41,113,969	5,660,185	13.8%
Travel	3,358,904	2,700,395	658,509	24.4%
Materials and Supplies	15,666,263	10,658,393	5,007,870	47.0%
Utilities	4,597,154	4,766,667	(169,513)	-3.6%
Telecommunications	2,076,937	1,581,250	495,687	31.3%
Repairs and Maintenance	4,458,654	3,520,494	938,160	26.6%
Rentals and Leases	2,143,910	1,869,336	274,574	14.7%
Printing and Reproduction	1,049,870	1,099,409	(49,539)	-4.5%
Federal Sponsored Programs Pass-Thrus	3,105,861	2,896,624	209,237	7.2%
Depreciation and Amortization	11,476,063	9,492,302	1,983,761	20.9%
Other Operating Expenses	3,529,974	3,282,881	247,093	7.5%
Total Operating Expenses	<u>235,920,053</u>	<u>203,766,445</u>	<u>32,153,608</u>	<u>15.8%</u>
Operating Loss	<u>(43,068,123)</u>	<u>(51,357,978)</u>	<u>8,289,855</u>	<u>16.1%</u>
Other Nonoperating Adjustments				
State Appropriations	67,876,930	68,508,378	(631,448)	-0.9%
Gift Contributions for Operations	2,192,423	1,870,383	322,040	17.2%
Net Investment Income	2,336,637	1,376,344	960,293	69.8%
Long Term Fund Distribution	1,267,051	1,129,771	137,280	12.2%
Interest Expense on Capital Asset Financings	(7,254,448)	(4,303,060)	(2,951,388)	-68.6%
Net Other Nonoperating Adjustments	<u>66,418,593</u>	<u>68,581,816</u>	<u>(2,163,223)</u>	<u>-3.2%</u>
Adjusted Income (Loss)	23,350,470	17,223,838	6,126,632	35.6%
Adjusted Margin (as a percentage)	8.8%	7.6%		
Investment Gains (Losses)	2,092	(217,517)	219,609	101.0%
Adjusted Income (Loss) with Investment Gains (Losses)	\$23,352,562	\$17,006,321	\$6,346,241	37.3%
Adjusted Margin % with Investment Gains (Losses)	8.8%	7.6%		

UNAUDITED
The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$16,019,790	\$12,601,931	\$3,417,859	27.1%
Sponsored Programs	6,681,995	6,399,932	282,063	4.4%
Net Sales and Services of Educational Activities	509,557	339,693	169,864	50.0%
Net Auxiliary Enterprises	1,987,730	952,763	1,034,967	108.6%
Other Operating Revenues	170,534	416,318	(245,784)	-59.0%
Total Operating Revenues	<u>25,369,606</u>	<u>20,710,637</u>	<u>4,658,969</u>	<u>22.5%</u>
Operating Expenses				
Salaries and Wages	21,675,241	18,797,198	2,878,043	15.3%
Employee Benefits and Related Costs	5,032,578	4,423,536	609,042	13.8%
Professional Fees and Contracted Services	794,305	929,636	(135,331)	-14.6%
Other Contracted Services	2,216,558	1,815,369	401,189	22.1%
Scholarships and Fellowships	9,207,012	7,358,813	1,848,199	25.1%
Travel	787,494	697,243	90,251	12.9%
Materials and Supplies	3,183,046	3,277,012	(93,966)	-2.9%
Utilities	852,677	779,476	73,201	9.4%
Telecommunications	365,968	318,972	46,996	14.7%
Repairs and Maintenance	829,096	1,245,683	(416,587)	-33.4%
Rentals and Leases	318,729	103,730	214,999	207.3%
Printing and Reproduction	425,205	429,403	(4,198)	-1.0%
Bad Debt Expense	0	9	(9)	-100.0%
Depreciation and Amortization	3,794,614	3,250,000	544,614	16.8%
Other Operating Expenses	824,696	729,385	95,311	13.1%
Total Operating Expenses	<u>50,307,219</u>	<u>44,155,465</u>	<u>6,151,754</u>	<u>13.9%</u>
Operating Loss	<u>(24,937,613)</u>	<u>(23,444,828)</u>	<u>(1,492,785)</u>	<u>-6.4%</u>
Other Nonoperating Adjustments				
State Appropriations	21,553,172	21,718,839	(165,667)	-0.8%
Gift Contributions for Operations	812,252	850,740	(38,488)	-4.5%
Net Investment Income	524,555	307,057	217,498	70.8%
Long Term Fund Distribution	1,889,600	1,765,176	124,424	7.0%
Interest Expense on Capital Asset Financings	(1,397,556)	(857,351)	(540,205)	-63.0%
Net Other Nonoperating Adjustments	<u>23,382,023</u>	<u>23,784,461</u>	<u>(402,438)</u>	<u>-1.7%</u>
Adjusted Income (Loss)	(1,555,590)	339,633	(1,895,223)	-558.0%
Adjusted Margin (as a percentage)	-3.1%	0.7%		
Investment Gains (Losses)	31	(1,982)	2,013	101.6%
Adjusted Income (Loss) with Investment Gains (Losses)	(\$1,555,559)	\$337,651	(\$1,893,210)	-560.7%
Adjusted Margin % with Investment Gains (Losses)	-3.1%	0.7%		

UNAUDITED
The University of Texas Southwestern Medical Center at Dallas
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$12,858,298	\$12,414,359	\$443,939	3.6%
Sponsored Programs	316,564,585	307,211,952	9,352,633	3.0%
Net Sales and Services of Educational Activities	12,586,172	17,282,214	(4,696,042)	-27.2%
Net Sales and Services of Hospitals	133,311,279	0	133,311,279	100.0%
Net Professional Fees	202,159,443	170,238,616	31,920,827	18.8%
Net Auxiliary Enterprises	12,667,348	9,890,938	2,776,410	28.1%
Other Operating Revenues	11,275,803	8,718,283	2,557,520	29.3%
Total Operating Revenues	<u>701,422,928</u>	<u>525,756,362</u>	<u>175,666,566</u>	<u>33.4%</u>
Operating Expenses				
Salaries and Wages	420,240,180	343,941,479	76,298,701	22.2%
Employee Benefits and Related Costs	111,991,188	96,128,964	15,862,224	16.5%
Professional Fees and Contracted Services	10,649,131	11,662,402	(1,013,271)	-8.7%
Other Contracted Services	51,582,599	48,887,598	2,695,001	5.5%
Scholarships and Fellowships	5,735,335	5,043,036	692,299	13.7%
Travel	6,636,709	6,268,167	368,542	5.9%
Materials and Supplies	115,352,121	71,804,175	43,547,946	60.6%
Utilities	15,593,675	15,445,483	148,192	1.0%
Telecommunications	5,645,174	5,273,778	371,396	7.0%
Repairs and Maintenance	9,224,966	6,637,455	2,587,511	39.0%
Rentals and Leases	8,242,458	5,000,927	3,241,531	64.8%
Printing and Reproduction	2,086,004	1,998,500	87,504	4.4%
Federal Sponsored Programs Pass-Thrus	1,628,689	1,397,343	231,346	16.6%
Depreciation and Amortization	36,871,755	27,736,523	9,135,232	32.9%
Other Operating Expenses	42,244,516	22,956,244	19,288,272	84.0%
Total Operating Expenses	<u>843,724,500</u>	<u>670,182,074</u>	<u>173,542,426</u>	<u>25.9%</u>
Operating Loss	<u>(142,301,572)</u>	<u>(144,425,712)</u>	<u>2,124,140</u>	<u>1.5%</u>
Other Nonoperating Adjustments				
State Appropriations	97,108,898	96,808,298	300,600	0.3%
Gift Contributions for Operations	41,515,802	28,336,741	13,179,061	46.5%
Net Investment Income	24,502,902	24,884,585	(381,683)	-1.5%
Long Term Fund Distribution	20,428,835	19,071,566	1,357,269	7.1%
Interest Expense on Capital Asset Financings	(12,925,252)	(6,494,203)	(6,431,049)	-99.0%
Net Other Nonoperating Adjustments	<u>170,631,185</u>	<u>162,606,987</u>	<u>8,024,198</u>	<u>4.9%</u>
Adjusted Income (Loss)	28,329,613	18,181,275	10,148,338	55.8%
Adjusted Margin (as a percentage)	3.2%	2.6%		
Investment Gains (Losses)	4,037,089	6,228,843	(2,191,754)	-35.2%
Adjusted Income (Loss) with Investment Gains (Losses)	\$32,366,702	\$24,410,118	\$7,956,584	32.6%
Adjusted Margin % with Investment Gains (Losses)	3.6%	3.5%		

UNAUDITED
The University of Texas Medical Branch at Galveston
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$10,621,173	\$9,487,852	\$1,133,321	11.9%
Sponsored Programs	167,319,593	149,067,086	18,252,507	12.2%
Net Sales and Services of Hospitals	585,094,595	556,316,369	28,778,226	5.2%
Net Professional Fees	88,121,639	81,656,079	6,465,560	7.9%
Net Auxiliary Enterprises	7,060,212	6,149,008	911,204	14.8%
Other Operating Revenues	16,807,764	18,064,402	(1,256,638)	-7.0%
Total Operating Revenues	<u>875,024,976</u>	<u>820,740,796</u>	<u>54,284,180</u>	<u>6.6%</u>
Operating Expenses				
Salaries and Wages	581,051,225	568,401,080	12,650,145	2.2%
Employee Benefits and Related Costs	155,577,366	131,245,978	24,331,388	18.5%
Professional Fees and Contracted Services	38,393,018	25,364,114	13,028,904	51.4%
Other Contracted Services	51,841,057	52,265,559	(424,502)	-0.8%
Scholarships and Fellowships	4,231,976	3,528,390	703,586	19.9%
Travel	5,388,553	4,571,092	817,461	17.9%
Materials and Supplies	143,711,896	130,525,690	13,186,206	10.1%
Utilities	19,220,839	17,674,143	1,546,696	8.8%
Telecommunications	11,108,534	10,537,952	570,582	5.4%
Repairs and Maintenance	24,340,179	23,877,162	463,017	1.9%
Rentals and Leases	9,312,570	10,507,745	(1,195,175)	-11.4%
Printing and Reproduction	1,620,537	1,832,777	(212,240)	-11.6%
Federal Sponsored Programs Pass-Thrus	5,542,243	1,850,134	3,692,109	199.6%
Depreciation and Amortization	41,085,610	39,273,297	1,812,313	4.6%
Other Operating Expenses	68,228,755	64,250,028	3,978,727	6.2%
Total Operating Expenses	<u>1,160,654,358</u>	<u>1,085,705,141</u>	<u>74,949,217</u>	<u>6.9%</u>
Operating Loss	<u>(285,629,382)</u>	<u>(264,964,345)</u>	<u>(20,665,037)</u>	<u>-7.8%</u>
Other Nonoperating Adjustments				
State Appropriations	233,800,343	228,373,902	5,426,441	2.4%
Gift Contributions for Operations	8,232,826	3,848,948	4,383,878	113.9%
Net Investment Income	13,854,844	9,738,593	4,116,251	42.3%
Long Term Fund Distribution	10,399,099	9,601,140	797,959	8.3%
Interest Expense on Capital Asset Financings	(3,186,939)	(2,186,272)	(1,000,667)	-45.8%
Net Other Nonoperating Adjustments	<u>263,100,173</u>	<u>249,376,311</u>	<u>13,723,862</u>	<u>5.5%</u>
Adjusted Income (Loss)	(22,529,209)	(15,588,034)	(6,941,175)	-44.5%
Adjusted Margin (as a percentage)	-2.0%	-1.5%		
Investment Gains (Losses)	6,318	(329,036)	335,354	101.9%
Adjusted Income (Loss) with Investment Gains (Losses)	(\$22,522,891)	(\$15,917,070)	(\$6,605,821)	-41.5%
Adjusted Margin % with Investment Gains (Losses)	-2.0%	-1.5%		

UNAUDITED
The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$12,458,065	\$12,095,209	\$362,856	3.0%
Sponsored Programs	194,902,018	193,297,945	1,604,073	0.8%
Net Sales and Services of Educational Activities	19,902,841	7,476,357	12,426,484	166.2%
Net Sales and Services of Hospitals	25,344,537	25,488,406	(143,869)	-0.6%
Net Professional Fees	90,469,182	85,153,862	5,315,320	6.2%
Net Auxiliary Enterprises	17,048,020	10,189,670	6,858,350	67.3%
Other Operating Revenues	27,861,335	27,417,587	443,748	1.6%
Total Operating Revenues	<u>387,985,998</u>	<u>361,119,036</u>	<u>26,866,962</u>	<u>7.4%</u>
Operating Expenses				
Salaries and Wages	257,062,584	253,241,047	3,821,537	1.5%
Employee Benefits and Related Costs	58,774,666	54,722,306	4,052,360	7.4%
Professional Fees and Contracted Services	44,872,879	43,764,798	1,108,081	2.5%
Other Contracted Services	26,317,356	23,004,898	3,312,458	14.4%
Scholarships and Fellowships	1,611,852	1,668,312	(56,460)	-3.4%
Travel	4,204,167	3,877,415	326,752	8.4%
Materials and Supplies	36,825,365	20,424,395	16,400,970	80.3%
Utilities	7,475,451	5,986,563	1,488,888	24.9%
Telecommunications	2,577,511	2,448,737	128,774	5.3%
Repairs and Maintenance	2,098,345	2,578,035	(479,690)	-18.6%
Rentals and Leases	8,896,626	8,760,609	136,017	1.6%
Printing and Reproduction	3,912,156	3,533,249	378,907	10.7%
Bad Debt Expense	1,194	17,425	(16,231)	-93.1%
Federal Sponsored Programs Pass-Thrus	3,829,465	3,592,368	237,097	6.6%
Depreciation and Amortization	14,739,810	13,813,740	926,070	6.7%
Other Operating Expenses	39,543,093	33,915,969	5,627,124	16.6%
Total Operating Expenses	<u>512,742,520</u>	<u>475,349,866</u>	<u>37,392,654</u>	<u>7.9%</u>
Operating Loss	<u>(124,756,522)</u>	<u>(114,230,830)</u>	<u>(10,525,692)</u>	<u>-9.2%</u>
Other Nonoperating Adjustments				
State Appropriations	120,858,418	114,794,617	6,063,801	5.3%
Gift Contributions for Operations	10,452,324	5,788,363	4,663,961	80.6%
Net Investment Income	8,874,883	7,251,220	1,623,663	22.4%
Long Term Fund Distribution	3,073,579	2,817,348	256,231	9.1%
Interest Expense on Capital Asset Financings	(7,844,675)	(3,005,365)	(4,839,310)	-161.0%
Net Other Nonoperating Adjustments	<u>135,414,529</u>	<u>127,646,183</u>	<u>7,768,346</u>	<u>6.1%</u>
Adjusted Income (Loss)	10,658,007	13,415,353	(2,757,346)	-20.6%
Adjusted Margin (as a percentage)	2.0%	2.7%		
Investment Gains (Losses)	(45,764)	(627,662)	581,898	92.7%
Adjusted Income (Loss) with Investment Gains (Losses)	\$10,612,243	\$12,787,691	(\$2,175,448)	-17.0%
Adjusted Margin % with Investment Gains (Losses)	2.0%	2.6%		

UNAUDITED
The University of Texas Health Science Center at San Antonio
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date FY 2005	June Year-to-Date FY 2004	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$14,687,500	\$12,358,333	\$2,329,167	18.8%
Sponsored Programs	152,260,808	149,203,538	3,057,270	2.0%
Net Sales and Services of Educational Activities	2,382,723	2,198,336	184,387	8.4%
Net Professional Fees	69,455,886	66,624,793	2,831,093	4.2%
Net Auxiliary Enterprises	1,985,778	1,745,770	240,008	13.7%
Other Operating Revenues	38,951,987	42,617,510	(3,665,523)	-8.6%
Total Operating Revenues	279,724,682	274,748,280	4,976,402	1.8%
Operating Expenses				
Salaries and Wages	212,505,528	198,100,055	14,405,473	7.3%
Employee Benefits and Related Costs	50,983,908	50,600,417	383,491	0.8%
Professional Fees and Contracted Services	10,829,824	10,625,310	204,514	1.9%
Other Contracted Services	12,310,712	11,709,960	600,752	5.1%
Scholarships and Fellowships	2,137,053	2,582,699	(445,646)	-17.3%
Travel	3,737,363	3,405,244	332,119	9.8%
Materials and Supplies	21,236,888	19,649,100	1,587,788	8.1%
Utilities	6,566,053	5,150,441	1,415,612	27.5%
Telecommunications	6,906,088	7,213,260	(307,172)	-4.3%
Repairs and Maintenance	1,482,673	1,058,343	424,330	40.1%
Rentals and Leases	1,597,812	1,725,142	(127,330)	-7.4%
Printing and Reproduction	1,331,615	1,403,248	(71,633)	-5.1%
Federal Sponsored Programs Pass-Thrus	335,228	636,439	(301,211)	-47.3%
Depreciation and Amortization	16,250,000	15,833,333	416,667	2.6%
Other Operating Expenses	79,245,518	81,306,152	(2,060,634)	-2.5%
Total Operating Expenses	427,456,263	410,999,143	16,457,120	4.0%
Operating Loss	(147,731,581)	(136,250,863)	(11,480,718)	-8.4%
Other Nonoperating Adjustments				
State Appropriations	121,707,212	118,586,389	3,120,823	2.6%
Gift Contributions for Operations	13,928,967	12,086,745	1,842,222	15.2%
Net Investment Income	16,155,756	16,007,658	148,098	0.9%
Long Term Fund Distribution	3,050,730	2,834,083	216,647	7.6%
Interest Expense on Capital Asset Financings	(5,708,980)	(1,764,204)	(3,944,776)	-223.6%
Net Other Nonoperating Adjustments	149,133,685	147,750,671	1,383,014	0.9%
Adjusted Income (Loss)	1,402,104	11,499,808	(10,097,704)	-87.8%
Adjusted Margin (as a percentage)	0.3%	2.7%		
Investment Gains (Losses)	403,291	32,504	370,787	1,140.7%
Adjusted Income (Loss) with Investment Gains (Losses)	\$1,805,395	\$11,532,312	(\$9,726,917)	-84.3%
Adjusted Margin % with Investment Gains (Losses)	0.4%	2.7%		

UNAUDITED
The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$158,713	\$193,288	(\$34,575)	-17.9%
Sponsored Programs	173,227,164	159,153,353	14,073,811	8.8%
Net Sales and Services of Educational Activities	1,270,087	1,087,141	182,946	16.8%
Net Sales and Services of Hospitals	1,058,866,717	901,469,680	157,397,037	17.5%
Net Professional Fees	192,683,773	177,816,672	14,867,101	8.4%
Net Auxiliary Enterprises	15,742,061	13,027,592	2,714,469	20.8%
Other Operating Revenues	22,136,752	15,601,747	6,535,005	41.9%
Total Operating Revenues	<u>1,464,085,267</u>	<u>1,268,349,473</u>	<u>195,735,794</u>	<u>15.4%</u>
Operating Expenses				
Salaries and Wages	778,253,000	693,853,912	84,399,088	12.2%
Employee Benefits and Related Costs	201,284,043	182,050,985	19,233,058	10.6%
Professional Fees and Contracted Services	61,050,048	50,580,853	10,469,195	20.7%
Other Contracted Services	19,989,408	17,139,949	2,849,459	16.6%
Travel	13,021,994	11,000,459	2,021,535	18.4%
Materials and Supplies	291,343,739	273,700,050	17,643,689	6.4%
Utilities	29,017,412	23,019,201	5,998,211	26.1%
Telecommunications	5,421,983	5,332,574	89,409	1.7%
Repairs and Maintenance	28,814,956	25,404,684	3,410,272	13.4%
Rentals and Leases	23,764,776	20,278,456	3,486,320	17.2%
Printing and Reproduction	2,629,068	2,617,813	11,255	0.4%
Federal Sponsored Programs Pass-Thrus	1,177,230	1,564,314	(387,084)	-24.7%
Depreciation and Amortization	108,242,430	75,179,832	33,062,598	44.0%
Other Operating Expenses	34,454,889	30,810,418	3,644,471	11.8%
Total Operating Expenses	<u>1,598,464,976</u>	<u>1,412,533,500</u>	<u>185,931,476</u>	<u>13.2%</u>
Operating Loss	<u>(134,379,709)</u>	<u>(144,184,027)</u>	<u>9,804,318</u>	<u>6.8%</u>
Other Nonoperating Adjustments				
State Appropriations	121,784,965	124,017,105	(2,232,140)	-1.8%
Gift Contributions for Operations	45,528,283	36,147,323	9,380,960	26.0%
Net Investment Income	35,511,106	25,922,630	9,588,476	37.0%
Long Term Fund Distribution	10,196,831	8,516,387	1,680,444	19.7%
Interest Expense on Capital Asset Financings	(14,283,868)	(6,225,437)	(8,058,431)	-129.4%
Net Other Nonoperating Adjustments	<u>198,737,317</u>	<u>188,378,008</u>	<u>10,359,309</u>	<u>5.5%</u>
Adjusted Income (Loss)	64,357,608	44,193,981	20,163,627	45.6%
Adjusted Margin (as a percentage)	3.8%	3.0%		
Investment Gains (Losses)	(3,497,423)	13,466,561	(16,963,984)	-126.0%
Adjusted Income (Loss) with Investment Gains (Losses)	\$60,860,185	\$57,660,542	\$3,199,643	5.5%
Adjusted Margin % with Investment Gains (Losses)	3.6%	3.9%		

UNAUDITED
The University of Texas Health Center at Tyler
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2005

	June Year-to-Date <u>FY 2005</u>	June Year-to-Date <u>FY 2004</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Sponsored Programs	\$8,627,902	\$6,596,183	\$2,031,719	30.8%
Net Sales and Services of Educational Activities	791,108	837,868	(46,760)	-5.6%
Net Sales and Services of Hospitals	40,631,601	45,696,703	(5,065,102)	-11.1%
Net Professional Fees	9,511,103	12,050,377	(2,539,274)	-21.1%
Net Auxiliary Enterprises	526,712	780,808	(254,096)	-32.5%
Other Operating Revenues	4,211,947	3,777,175	434,772	11.5%
Total Operating Revenues	<u>64,300,373</u>	<u>69,739,114</u>	<u>(5,438,741)</u>	<u>-7.8%</u>
Operating Expenses				
Salaries and Wages	50,584,149	49,709,248	874,901	1.8%
Employee Benefits and Related Costs	12,967,295	13,073,156	(105,861)	-0.8%
Professional Fees and Contracted Services	5,767,764	6,099,183	(331,419)	-5.4%
Other Contracted Services	6,368,305	4,632,464	1,735,841	37.5%
Travel	559,563	502,415	57,148	11.4%
Materials and Supplies	12,752,706	13,789,780	(1,037,074)	-7.5%
Utilities	1,875,709	1,668,321	207,388	12.4%
Telecommunications	426,499	467,794	(41,295)	-8.8%
Repairs and Maintenance	1,935,989	1,490,831	445,158	29.9%
Rentals and Leases	945,243	1,449,174	(503,931)	-34.8%
Printing and Reproduction	654,857	751,652	(96,795)	-12.9%
Federal Sponsored Programs Pass-Thrus	521,376	529,112	(7,736)	-1.5%
Depreciation and Amortization	6,038,277	4,997,853	1,040,424	20.8%
Other Operating Expenses	2,681,578	2,068,020	613,558	29.7%
Total Operating Expenses	<u>104,079,310</u>	<u>101,229,003</u>	<u>2,850,307</u>	<u>2.8%</u>
Operating Loss	<u>(39,778,937)</u>	<u>(31,489,889)</u>	<u>(8,289,048)</u>	<u>-26.3%</u>
Other Nonoperating Adjustments				
State Appropriations	30,458,801	31,181,637	(722,836)	-2.3%
Gift Contributions for Operations	4,602,846	1,877,559	2,725,287	145.2%
Net Investment Income	2,530,295	2,352,188	178,107	7.6%
Long Term Fund Distribution	108,999	234,979	(125,980)	-53.6%
Interest Expense on Capital Asset Financings	(255,811)	0	(255,811)	-100.0%
Net Other Nonoperating Adjustments	<u>37,445,130</u>	<u>35,646,363</u>	<u>1,798,767</u>	<u>5.0%</u>
Adjusted Income (Loss)	(2,333,807)	4,156,474	(6,490,281)	-156.1%
Adjusted Margin (as a percentage)	-2.3%	3.9%		
Investment Gains (Losses)	147,978	(45,219)	193,197	427.2%
Adjusted Income (Loss) with Investment Gains (Losses)	(\$2,185,829)	\$4,111,255	(\$6,297,084)	-153.2%
Adjusted Margin % with Investment Gains (Losses)	-2.1%	3.9%		

3. **U. T. System: Approval of transfer of funds between Legislative Appropriation items during the biennium beginning September 1, 2005**

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and presidents of the U. T. System institutions recommends that the U. T. System Board of Regents adopt the resolution that follows to provide for the most effective utilization of the General Revenue Appropriations during the biennium beginning September 1, 2005.

RESOLUTION

Pursuant to the appropriate transfer provisions of the General Appropriations Act of the 79th Legislature, it is hereby resolved that the State Comptroller be requested to make necessary transfers within the Legislative Appropriations (and/or Informational Items of Appropriation) from the General Revenue Fund as authorized by the Chief Financial Officer of each entity as follows:

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler
The University of Texas Southwestern Medical Center at Dallas
The University of Texas Medical Branch at Galveston
The University of Texas Health Science Center at Houston
The University of Texas Health Science Center at San Antonio
The University of Texas M. D. Anderson Cancer Center
The University of Texas Health Center at Tyler
The University of Texas System Administration

BACKGROUND INFORMATION

This resolution is a standard action by the U. T. System Board of Regents at the beginning of each biennium and is pursuant to provisions of the General Appropriations Act, Article III, Section 4, enacted by the 79th Texas Legislature.

4. **U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the affected U. T. System institutions that the U. T. System Board of Regents approve allowing those institutions, as set forth in the table on Page 34.1, to exceed the number of full-time equivalent (FTE) employees paid from appropriated funds for Fiscal Year 2006 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.14 of the General Appropriations Act, it is recommended that the U. T. System Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from appropriated funds.

BACKGROUND INFORMATION

The General Appropriations Act places a limit on the number of FTE employees paid from appropriated funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. To exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels.

U. T. Austin, U. T. Dallas, U. T. Health Science Center - Houston, and U. T. System Administration will be under the FTE cap and are not requesting to exceed the FTE limitation.

The University of Texas System
Request to Exceed Full-time Equivalent Limitation on Employees Paid From Appropriated Funds

Request to Exceed Cap - by Function

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Instruction	520.35	234.86	755.21
Academic Support	-	15.35	15.35
Research	20.30	63.77	84.07
Public Service	-	0.70	0.70
Hospitals and Clinics	70.30	764.12	834.42
Institutional Support	-	455.33	455.33
Student Support	-	58.62	58.62
Operations and Maintenance of Plant	-	345.00	345.00
Scholarships and Fellowships	-	0.37	0.37
Total	<u>610.95</u>	<u>1,938.12</u>	<u>2,549.07</u>

Request to Exceed Cap - by Institution

	<u>FY 2006 Cap</u>	<u>Request to Exceed Cap</u>		
		<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
U. T. Arlington	2,104.80	74.00	12.00	86.00
U. T. Austin	6,641.00	-	-	-
U. T. Brownsville	429.90	156.33	98.35	254.68
U. T. Dallas	1,354.80	-	-	-
U. T. El Paso	1,724.60	26.74	39.16	65.90
U. T. Pan American	1,445.70	36.00	98.84	134.84
U. T. Permian Basin	268.30	5.50	10.00	15.50
U. T. San Antonio	1,834.00	65.00	77.00	142.00
U. T. Tyler	419.00	24.50	24.25	48.75
Total Academic Institutions	<u>16,222.10</u>	<u>388.07</u>	<u>359.60</u>	<u>747.67</u>
U. T. Southwestern Medical Center	1,773.20	81.85	57.30	139.15
U. T. Medical Branch - Galveston	5,729.80	9.13	379.42	388.55
U. T. Health Science Center - Houston	1,858.10	-	-	-
U. T. Health Science Center - San Antonio	2,208.60	25.70	79.00	104.70
U. T. M. D. Anderson Cancer Center	10,452.39	106.20	987.80	1,094.00
U. T. Health Center - Tyler	919.70	0.00	75.00	75.00
Total Health Institutions	<u>22,941.79</u>	<u>222.88</u>	<u>1,578.52</u>	<u>1,801.40</u>
U. T. System Administration	<u>249.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
U. T. System Total	<u>39,412.89</u>	<u>610.95</u>	<u>1,938.12</u>	<u>2,549.07</u>

*U. T. Austin, U. T. Dallas, U. T. HSC Houston, and U. T. System Administration will not exceed their cap.

5. **U. T. System: Approval of Optional Retirement Program employer contribution rates for Fiscal Year 2006**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor for Administration that the U. T. System Board of Regents approve the Optional Retirement Program (ORP) employer contribution rates for Fiscal Year 2006 as follows:

- a. 8.5% for all institutions and System Administration with respect to employees who participated in the ORP prior to September 1, 1995; and
- b. for all other employees, an employer contribution rate as recommended by each institution and set forth on Page 36.1.

BACKGROUND INFORMATION

Prior to September 1, 1995, the ORP employer contribution rate was 8.5% for all ORP participants. An enactment by the 74th Texas Legislature reduced ORP employer contributions to participants from 8.5% to 6.0%, effective September 1, 1995. However, U. T. System was permitted to "grandfather" those employees participating in the ORP during the 1994-95 biennium. This resulted in a two-tiered ORP employer contribution rate for U. T. System employees: those who participated in ORP during the 1994-95 biennium continued to receive 8.5%, while those who did not participate during the 1994-95 biennium received 6.0%.

The 78th Texas Legislature enacted *Texas Government Code* Section 830.2015, which expanded the definition of a grandfathered employee from one who had participated during the 1994-95 biennium to one who had participated in ORP prior to September 1, 1995. The legislation also granted permissive authority for institutions of higher education to set the ORP employer contribution rate for grandfathered and nongrandfathered participants at any percentage level between 6.0% and 8.5%. It is not required that the rate be the same for grandfathered employees, nor that the rate be the same for all U. T. System institutions.

Given the diversity of the U. T. System institutions and the differential budget impact for each institution, each institutional president was asked to propose its ORP employer contribution rates for grandfathered and nongrandfathered participants. For Fiscal Year 2006, with respect to grandfathered employees hired prior to September 1, 1995, all U. T. System institutions elected to continue the current 8.5% employer contribution rate. For nongrandfathered participants hired after September 1, 1995, five institutions have elected to increase the ORP employer contribution rate from the rate established

by the Board for Fiscal Year 2005. Four institutions (U. T. Austin, U. T. Dallas, U. T. Pan American, and U. T. Southwestern Medical Center - Dallas) have elected to increase the contribution rate from 6.0% to 6.5%. U. T. Tyler has elected to increase the contribution rate from 6.0% to 8.5%. For nongrandfathered participants hired after September 1, 1995, the remaining institutions have elected to adopt the same rate adopted in the prior year.

The governing board of an institution of higher education has the authority to set the ORP employer contribution rates in accordance with rules issued by the Texas Higher Education Coordinating Board. Under those rules, the governing board is to determine the employer contribution rates once per fiscal year, to be effective for the entire fiscal year. All institutions plan to implement the employer contribution rates effective September 1, 2005, with the exception of U. T. Austin. Because of the number of employees this will impact and the required analysis of each individual's tax deferrals to ensure compliance with the *Internal Revenue Code*, U. T. Austin proposes implementation of the new employer contribution rate change beginning with paychecks issued on or after January 1, 2006. The staff at the Coordinating Board was contacted and this proposal would not be consistent with their current rule. However, as discussed with Coordinating Board staff, the intent of the rule was to prohibit changes more than once per fiscal year and the Coordinating Board had not contemplated implementation of the employer contribution rate on any date other than the first day of the fiscal year. The Coordinating Board staff has no opposition to implementation of the employer contribution rate on another date as long as the employer contribution rate applies for the entire year for which it is selected. The Coordinating Board will consider a rule change subject to final adoption at its October 27, 2005, board meeting. If the proposed rule change is adopted, the rule would be effective in 20 days thereafter, which would allow U. T. Austin to implement beginning with paychecks issued on or after January 1, 2006. Approval of this Agenda Item will authorize all U. T. System institutions with the exception of U. T. Austin to implement on September 1, 2005, and authorize U. T. Austin to implement beginning with paychecks issued on or after January 1, 2006, contingent upon the Coordinating Board adopting the proposed rule change.

**The University of Texas System
Proposed Optional Retirement Plan Contribution Rates**

	Fiscal Year 2005		Fiscal Year 2006	
	Grandfathered	Nongrandfathered	Grandfathered	Nongrandfathered
U. T. Arlington	8.5%	6.0%	8.5%	6.0%
U. T. Austin	8.5%	6.0%	8.5%	6.5%
U. T. Brownsville	8.5%	6.0%	8.5%	6.0%
U. T. Dallas	8.5%	6.0%	8.5%	6.5%
U. T. El Paso	8.5%	6.0%	8.5%	6.0%
U. T. Pan American	8.5%	6.0%	8.5%	6.5%
U. T. Permian Basin	8.5%	8.5%	8.5%	8.5%
U. T. San Antonio	8.5%	8.5%	8.5%	8.5%
U. T. Tyler	8.5%	6.0%	8.5%	8.5%
U. T. Southwestern Medical Center - Dallas	8.5%	6.0%	8.5%	6.5%
U. T. Medical Branch - Galveston	8.5%	8.5%	8.5%	8.5%
U. T. HSC - Houston	8.5%	6.0%	8.5%	6.0%
U. T. HSC - San Antonio	8.5%	6.0%	8.5%	6.0%
U. T. M. D. Anderson Center	8.5%	8.5%	8.5%	8.5%
U. T. Health Center - Tyler	8.5%	8.5%	8.5%	8.5%
U. T. System Administration	8.5%	8.5%	8.5%	8.5%

6. **U. T. System Board of Regents: Report on Investments for quarter ended May 31, 2005, Liquidity Profile, and Performance Report by Ennis Knupp + Associates**

REPORTS

Pages 37.1 - 37.7 contain the Summary Reports on Investments for the three months ended May 31, 2005.

Item I on Pages 37.1 - 37.2 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the three months was .14% versus its composite benchmark return of 1.89%. The PUF's net asset value increased by \$67.6 million since the beginning of the quarter to \$8,899.8 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return.

Item II on Pages 37.3 - 37.5 reports summary activity for the General Endowment Fund (GEF), the Permanent Health Fund (PHF), and the Long Term Fund (LTF). The GEF's net investment return for the three months was .09% versus its composite benchmark return of 1.89%. The GEF's net asset value decreased \$12.2 million since the beginning of the quarter to \$4,679.5 million.

Item III on Page 37.6 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was .98% for the three months versus the SITF's performance benchmark of .95%. The SITF's net asset value decreased by \$4.4 million since the beginning of the quarter to \$1,202.0 million. This decrease in net asset value was due to net withdrawals and distributions to the SITF.

Item IV on Page 37.7 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, decreased by \$60.8 million to \$2,406.3 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$47.3 million versus \$51.1 million at the beginning of the period; equities: \$346.2 million versus \$296.4 million at the beginning of the period; and other investments: \$2.2 million versus \$2.0 million at the beginning of the period.

The May 31, 2005, PUF and GEF Combined Liquidity Profile is attached on Page 37.8.

An Executive Summary of the Performance Report on investments for the quarter ended May 31, 2005, as prepared by Ennis Knupp + Associates is attached on Pages 37.9 - 37.16.

I. PERMANENT UNIVERSITY FUND (1)a.) Summary Investment Report at May 31, 2005

(\$ millions)

	FY03-04	FY04-05			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
Beginning Net Assets	7,244.8	8,087.9	8,648.2	8,832.2	8,087.9
PUF Lands Receipts (3)	146.7	67.7	31.1	59.0	157.8
Investment Return	1,070.2	583.9	420.7	26.9	1,031.5
Expenses	(25.8)	(6.0)	(11.9)	(18.3)	(36.2)
Distributions to AUF	(348.0)	(85.3)	(255.9)	-	(341.2)
Ending Net Assets	8,087.9	8,648.2	8,832.2	8,899.8	8,899.8
AUF Distribution:					
From PUF Investments	348.0	85.3	255.9	-	341.2
From Surface Income	7.6	1.0	2.5	2.0	5.5
Total	355.6	86.3	258.4	2.0	346.7
Total Net Investment Return	14.73%	7.23%	4.83%	0.14%	12.56%

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- (1) Report prepared in accordance with *Texas Education Code* Sec. 51.0032.
- (2) General - The Investment Summary Report excludes PUF Lands mineral and surface interests with estimated August 31, 2004 values of \$752.1 million and \$164.0 million, respectively.
- (3) PUF Lands Receipts - As of May 31, 2005: 1,220,843 acres under lease; 510,284 producing acres; 3,282 active leases; and 2,058 producing leases.

I. PERMANENT UNIVERSITY FUND (continued)

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolioand Net Investment Return for the three months ended May 31, 2005

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	2.0%	0.0%	0.70%	0.73%	90 Day T-Bills Average Yield
U.S. Equities	26.9%	25.0%	1.59%	1.29%	80% Russell 3000 Index plus 20% Dow Jones Wilshire Real Estate Securities Index
Global Equities	16.4%	17.0%	-4.12%	-4.74%	Morgan Stanley Capital International - All Country World Free ex U.S., net
Equity Hedge Funds	10.0%	10.0%	-0.15%	1.74%	90 Day T-Bills Average Yield plus 4%
Absolute Return Hedge Funds	14.4%	15.0%	0.19%	1.48%	90 Day T-Bills Average Yield plus 3%
Commodities	4.7%	3.0%	-1.70%	-3.22%	Goldman Sachs Commodity Index minus 100 basis points
Fixed Income	15.7%	15.0%	1.79%	2.18%	66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Index Treasury Inflation Protected Securities
Total Marketable Securities	<u>90.1%</u>	<u>85.0%</u>	-0.32%	0.19%	
Private Capital	9.9%	15.0%	4.51%	11.90%	Venture Economics' Periodic IRR Index
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	0.14%	1.89%	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

II. GENERAL ENDOWMENT FUND (1) (2)

a.) Summary Investment Report at May 31, 2005

(\$ millions)

	FY03-04		FY04-05							
	Full Year		1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date				
Beginning Net Assets	3,584.8		4,207.6	4,503.7	4,691.7	4,207.6				
Net Contributions	559.5		95.5	118.6	108.0	322.1				
Investment Return	559.0		315.0	223.2	11.4	549.6				
Expenses	(9.6)		(1.8)	(6.5)	(8.5)	(16.8)				
Allocations (3)	(486.1)		(112.6)	(147.3)	(123.1)	(383.0)				
Ending Net Assets	4,207.6		4,503.7	4,691.7	4,679.5	4,679.5				
Net Asset Value per Unit	117.595		126.278	132.324	132.403	132.403				
Units and Percentage Ownership										
(End of Period):										
PHF	6,923,785	19.4%	6,846,092	19.2%	6,773,278	19.1%	6,699,254	19.0%	6,699,254	19.0%
LTF	28,857,142	80.6%	28,818,941	80.8%	28,683,029	80.9%	28,643,980	81.0%	28,643,980	81.0%
Total	35,780,927	100.0%	35,665,033	100.0%	35,456,307	100.0%	35,343,234	100.0%	35,343,234	100.0%
Total Net Investment Return	14.77%		7.39%	4.79%	0.09%	12.65%				

(1) Report prepared in accordance with *Texas Education Code* Sec. 51.0032.

(2) On March 1, 2001, the Permanent Health Fund (PHF) and Long Term Fund (LTF) purchased units in the newly created General Endowment Fund (GEF). The initial number of units was based on the PHF's and LTF's contribution of its net values as of February 28, 2001.

(3) The GEF allocates its net investment income and realized gain (loss) to its unit holders based on their ownership of GEF units at month end. The allocated amounts are reinvested as GEF contributions. The allocation is proportional to the percentage of ownership by the unit holders, and therefore, no additional units are purchased.

II. GENERAL ENDOWMENT FUND (continued)

b.) Unit Holders' Summary Investment Report at May 31, 2005 (1)

(\$ millions)

	FY03-04	FY04-05			Year-to-Date
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	
<u>PERMANENT HEALTH FUND</u>					
Beginning Net Assets	745.0	814.4	864.7	896.5	814.4
Investment Return	108.6	60.1	41.4	0.6	102.1
Expenses	(0.7)	(0.2)	-	(0.2)	(0.4)
Distributions (Payout)	(38.5)	(9.6)	(9.6)	(9.7)	(28.9)
Ending Net Assets	814.4	864.7	896.5	887.2	887.2
Net Asset Value per Unit (2)	0.993200	1.054513	1.093241	1.081939	1.081939
No. of Units (End of Period)	820,000,000	820,000,000	820,000,000	820,000,000	820,000,000
Distribution Rate per Unit	0.04700	0.01175	0.01175	0.01175	0.035250
Total Net Investment Return	14.60%	7.36%	4.79%	0.04%	12.55%
<u>LONG TERM FUND</u>					
Beginning Net Assets	2,839.8	3,393.3	3,639.0	3,795.3	3,393.3
Net Contributions	276.5	37.7	22.5	38.0	98.2
Investment Return	441.1	253.1	175.4	2.3	430.8
Expenses	(6.1)	(3.7)	0.1	(1.1)	(4.7)
Distributions (Payout)	(158.0)	(41.4)	(41.7)	(42.1)	(125.2)
Ending Net Assets	3,393.3	3,639.0	3,795.3	3,792.4	3,792.4
Net Asset Value per Unit (2)	5.585	5.923	6.139	6.074	6.074
No. of Units (End of Period)	607,622,749	614,379,162	618,174,345	624,354,307	624,354,307
Distribution Rate per Unit	0.264500	0.067425	0.067425	0.067425	0.202275
Total Net Investment Return	14.59%	7.36%	4.80%	0.04%	12.55%

(1) The Permanent Health Fund (PHF) and Long Term Fund (LTF) are internal mutual funds for the pooled investment of endowment funds. The PHF is comprised of endowments for health-related institutions of higher education and the LTF is comprised of privately raised endowments and other long-term funds of U. T. System institutions.

(2) The asset allocation of the PHF and LTF is representative of the asset allocation for the GEF. A nominal amount of cash is held in PHF and LTF to pay expenses incurred separately by these funds.

II. GENERAL ENDOWMENT FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the three months ended May 31, 2005

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	0.7%	0.0%	0.70%	0.73%	90 Day T-Bills Average Yield
U.S. Equities	26.4%	25.0%	1.60%	1.29%	80% Russell 3000 Index plus 20% Dow Jones Wilshire Real Estate Securities Index
Global Equities	16.7%	17.0%	-4.15%	-4.74%	Morgan Stanley Capital International - All Country World Free ex U.S., net
Equity Hedge Funds	10.0%	10.0%	-0.09%	1.74%	90 Day T-Bills Average Yield plus 4%
Absolute Return Hedge Funds	14.8%	15.0%	0.20%	1.48%	90 Day T-Bills Average Yield plus 3%
Commodities	4.8%	3.0%	-1.71%	-3.22%	Goldman Sachs Commodity Index minus 100 basis points
Fixed Income	16.0%	15.0%	1.72%	2.18%	66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Index Treasury Inflation Protected Securities
Total Marketable Securities	89.4%	85.0%	-0.34%	0.19%	
Private Capital	10.6%	15.0%	3.97%	11.90%	Venture Economics' Periodic IRR Index
Total	100.0%	100.0%	0.09%	1.89%	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

III. SHORT INTERMEDIATE TERM FUND (1)Summary Investment Report at May 31, 2005

(\$ millions)

	FY03-04	FY04-05			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
Beginning Net Assets	1,435.3	1,178.0	1,199.0	1,206.4	1,178.0
Net Contributions (Withdrawals)	(261.3)	22.8	9.5	(7.8)	24.5
Investment Return	33.2	4.3	4.9	11.8	21.0
Expenses	(0.6)	(0.2)	-	(0.1)	(0.3)
Distributions of Income	(28.6)	(5.9)	(7.0)	(8.3)	(21.2)
Ending Net Assets	1,178.0	1,199.0	1,206.4	1,202.0	1,202.0
Net Asset Value per Unit	9.927	9.911	9.894	9.923	9.923
No. of Units (End of Period)	118,671,708	120,971,065	121,930,268	121,136,214	121,136,214
Total Net Investment Return	2.49%	0.34%	0.40%	0.98%	1.73%

(1) Report prepared in accordance with *Texas Education Code* Sec. 51.0032.

IV. SEPARATELY INVESTED ASSETS

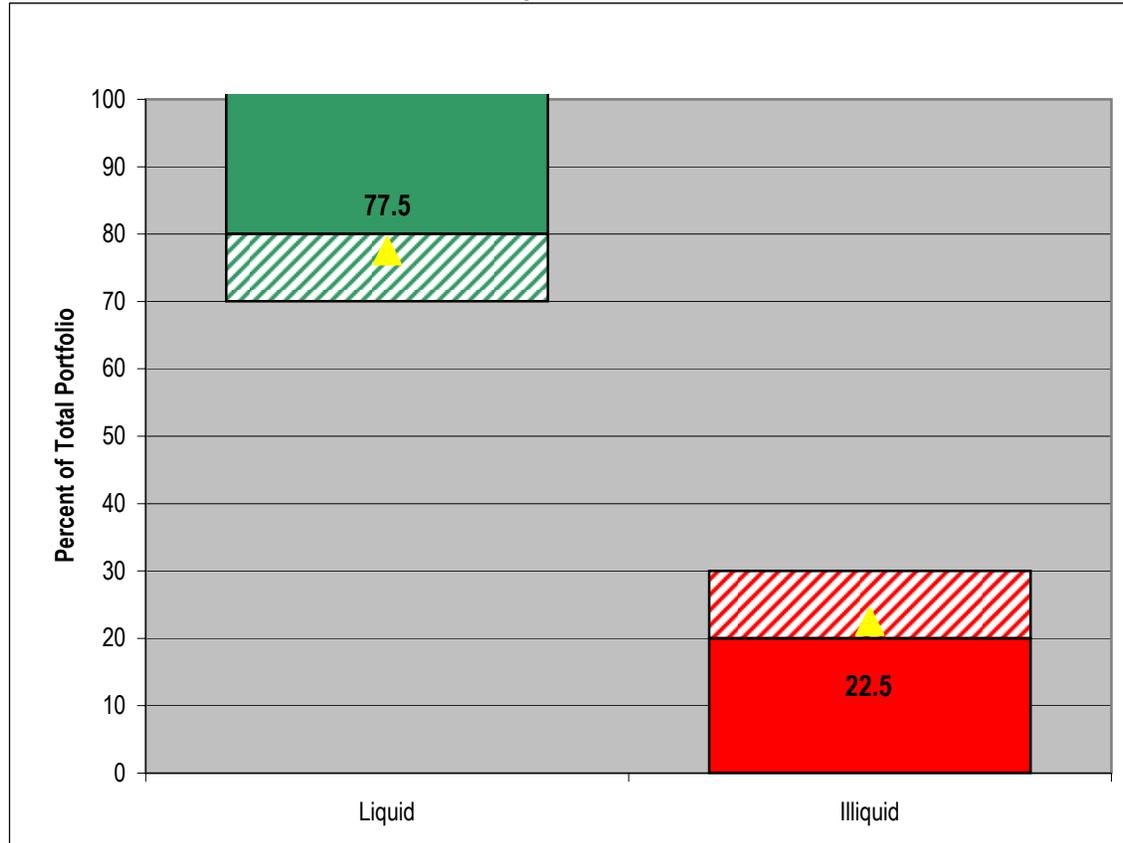
Summary Investment Report at May 31, 2005

(\$ thousands)

ASSET TYPES	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	DESIGNATED		RESTRICTED		BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Cash & Equivalents:														
Beginning value 02/28/05	2,721	2,721	2,227	2,227	71,408	71,408	2,546	2,546	2	2	2,388,230	2,388,230	2,467,134	2,467,134
Increase/(Decrease)	59	59	4,108	4,108	(3,206)	(3,206)	(1,922)	(1,922)	(2)	(2)	(59,853)	(59,853)	(60,816)	(60,816)
Ending value 05/31/05	2,780	2,780	6,335	6,335	68,202	68,202	624	624	-	-	2,328,377	2,328,377	2,406,318	2,406,318
Debt Securities:														
Beginning value 02/28/05	-	-	263	207	34,729	34,989	15,565	15,916	-	-	-	-	50,557	51,112
Increase/(Decrease)	-	-	-	7	(5,351)	(5,047)	932	1,190	-	-	-	-	(4,419)	(3,850)
Ending value 05/31/05	-	-	263	214	29,378	29,942	16,497	17,106	-	-	-	-	46,138	47,262
Equity Securities:														
Beginning value 02/28/05	34	9,473	1,875	1,477	41,000	46,203	20,904	23,837	-	-	248,472	215,446	312,285	296,436
Increase/(Decrease)	2	(272)	189	279	97	(201)	671	85	-	-	58,414	49,862	59,373	49,753
Ending value 05/31/05	36	9,201	2,064	1,756	41,097	46,002	21,575	23,922	-	-	306,886	265,308	371,658	346,189
Other:														
Beginning value 02/28/05	-	-	1,917	1,917	3	3	206	86	-	-	-	-	2,126	2,006
Increase/(Decrease)	2,000	2,000	(1,806)	(1,806)	(3)	(3)	12	-	-	-	-	-	203	191
Ending value 05/31/05	2,000	2,000	111	111	-	-	218	86	-	-	-	-	2,329	2,197

Report prepared in accordance with *Texas Education Code* Sec. 51.0032.
Details of individual assets by account furnished upon request.

PUF and GEF Combined Liquidity Profile May 31, 2005



The solid bar on the left indicates the Policy range for investments categorized as "liquid". The solid bar on the right indicates the Policy range for investments categorized as "illiquid". The shaded sections of the bars indicate trigger zones requiring special action by the UTIMCO Board or the Risk Committee. For example, the allowable range for illiquid investments is 0% to 30% of the total portfolio. However, any illiquid investments made in the 20% to 30% trigger zone requires prior approval by the Risk Committee or the UTIMCO Board.

U.T. System Board of Regents
Report on Investments

Quarter Ending
May 31, 2005



As of May 31, 2005

CHANGE IN MARKET VALUE
(\$ in millions)

	PUF	GEF	Total Endowments (PUF + GEF)	Operating Funds	Total
Beginning Market Value (2/28/05)	\$8,832	\$4,692	\$13,524	\$3,810	\$17,334
Contributions	+59	+39	+98	+69	+167
Distributions & Withdrawals	-11	-59	-70	-95	-165
Changes due to Transfers:	+48	-20	+28	-26	+2
Income	+47	+24	+71	+10	+81
Appreciation/Depreciation	-27	-16	-43	+2	-41
Changes from Investment Activities:	+20	+8	+28	+12	+40
Ending Market Value (5/31/05)	\$8,900	\$4,680	\$13,580	\$3,796	\$17,376
Change in Market Value	\$68	-\$12	\$56	-\$14	\$42

- As illustrated above, the total market value of the PUF experienced an increase of \$68 million during the quarter, while the market value of the GEF declined by \$12 million. The Operating Funds saw a decrease of \$14 million.

RETURN SUMMARY

ENDING 5/31/05¹

	Quarter Ending 5/31/2005	1 Year Ending 5/31/2005	3 Years Ending 5/31/2005	5 Years Ending 5/31/2005
Permanent University Fund	0.1%	13.4%	10.0%	5.5%
Endowment Performance Benchmark(PUF) ²	1.9	12.0	7.8	3.9
Long Term Fund	0.0	13.3	10.1	5.6
Endowment Performance Benchmark(GEF) ²	1.9	12.0	7.8	3.8
Permanent Health Fund	0.0	13.3	10.1	5.5
Endowment Performance Benchmark(GEF) ²	1.9	12.0	7.8	3.8
Short Term Fund	0.7	2.0	1.5	2.7
ML 90-day T-Bill	0.7	2.0	1.5	2.7
Short Intermediate Term Fund	1.0	2.9	2.2	4.3
Performance Benchmark	1.0	1.8	2.7	4.8
BGI U.S. Debt Index Fund	1.9	6.8	5.9	7.8
LB Aggregate Bond Index	1.9	6.8	5.9	7.7
BGI Equity Index Fund	-0.5	8.3	5.6	-1.9
S&P 500 Index	-0.6	8.2	5.6	-1.9

- Each of the endowment portfolios underperformed the performance benchmark during the fiscal third quarter, but have outperformed over all longer periods shown. The Short Term Fund has approximated the returns of its benchmark over all periods shown, while the Short Intermediate Term Fund has outperformed over the trailing year, but underperformed over the longer-term periods shown.

¹ Rates of return greater than one year are annualized. UTIMCO reports its performance data net of all costs.

² The Endowment Policy Portfolio reflects the U.T. System Board of Regents approved asset allocation policy targets and benchmarks beginning January 1, 2004. The return is the weighted sum of the benchmark returns for each asset category as described in the Investment Policy Statements approved by the Board of Regents on December 19, 2003. Performance prior to January 1, 2004, represents historical policy portfolio data provided by UTIMCO. On July 8, 2005 the Board of Regents approved a restatement of the Endowment Performance Benchmark returns prior to January 1, 2004. This restatement is reflected in this report.

As of May 31, 2005

PUF POLICY COMPLIANCE
 ASSET ALLOCATION AS OF 5/31/05
 (\$ in millions)

	Total	Percent Of Total	Policy	Policy Ranges	In Compliance?
Traditional US Equities	\$1,924	21.6%	20%	15-45%	Yes
REITs	475	5.3	5%	0-10	Yes
U.S. Equity	\$2,399	27.0%	25%	15-45%	Yes
Non-U.S. Developed Equity	\$1,245	14.0%	10%	5-15%	Yes
Emerging Markets Equity	216	2.4	7%	0-10	Yes
Global ex-U.S. Equity	\$1,461	16.4%	17%	5-25%	Yes
Total Traditional Equity	\$3,860	43.4%	42%	20-60%	Yes
Equity Hedge Funds	\$885	9.9%	10%	5-15%	Yes
Absolute Return Hedge Funds	1,284	14.4	15%	10-20	Yes
Total Hedge Funds	\$2,169	24.4%	25%	15-25%	Yes
Venture Capital	\$137	1.5%	6%	0-10%	Yes
Private Equity	744	8.4	9%	5-15	Yes
Total Private Capital	\$881	9.9%	15%	5-15%	Yes
Commodities	\$422	4.7%	3%	0-5%	Yes
Traditional Fixed Income	\$987	11.1%	10%	10-30%	Yes
TIPS	406	4.6	5%	0-10	Yes
Total Fixed Income	\$1,393	15.6%	15%	10-30%	Yes
Cash	\$175	2.0%	--	0-5%	Yes
Total Permanent University Fund	\$8,900	100.0%	100%		
Liquidity Requirement					Yes

- During the third fiscal quarter, allocations to non-U.S. developed equity and commodities were reduced while the allocation to traditional fixed income was increased. These moves brought the PUF's asset class allocations within policy ranges.
- The asset allocation figures shown above include the impact of UTIMCO internal derivative investment exposures, such as positions in futures contracts.

As of May 31, 2005

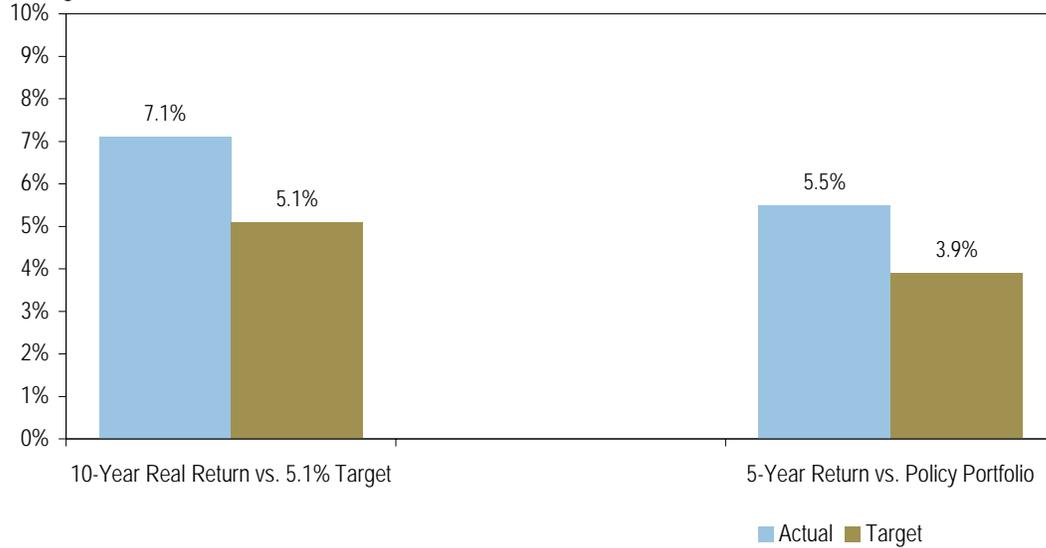
GEF POLICY COMPLIANCE
 ASSET ALLOCATION AS OF 5/31/05
 (\$ in millions)

	Total	Percent Of Total	Policy	Policy Ranges	In Compliance?
Traditional US Equities	\$993	21.2%	20%	15-45%	Yes
REITs	246	5.3	5%	0-10	Yes
U.S. Equity	\$1,239	26.5%	25%	15-45%	Yes
Non-U.S. Developed Equity	\$656	14.0%	10%	5-15%	Yes
Emerging Markets Equity	124	2.7	7%	0-10	Yes
Global ex-U.S. Equity	\$781	16.7%	17%	5-25%	Yes
Total Traditional Equity	\$2,020	43.2%	42%	20-60%	Yes
Equity Hedge Funds	\$470	10.0%	10%	5-15%	Yes
Absolute Return Hedge Funds	691	14.8	15%	10-20	Yes
Total Hedge Funds	\$1,161	24.8%	25%	15-25%	Yes
Venture Capital	\$94	2.0%	6%	0-10%	Yes
Private Equity	403	8.6	9%	5-15	Yes
Total Private Capital	\$497	10.6%	15%	5-15%	Yes
Commodities	\$224	4.8%	3%	0-5%	Yes
Traditional Fixed Income	\$531	11.3%	10%	10-30%	Yes
TIPS	216	4.6	5%	0-10	Yes
Total Fixed Income	\$747	16.0%	15%	10-30%	Yes
Cash	\$31	0.7%	--	0-5%	Yes
Total General Endowment Fund	\$4,680	100.0%	100%		
Liquidity Requirement					Yes

- During the third fiscal quarter, allocations to non-U.S. developed equity and commodities were reduced while the allocations to traditional fixed income and cash were increased. These moves brought the GEF asset class allocations within policy ranges.
- The asset allocation figures shown above include the impact of UTIMCO internal derivative investment exposures, such as positions in futures contracts.

As of May 31, 2005

**Permanent University Fund
Analysis of Investment Objectives
Ending 5/31/05**



The primary investment objective of the PUF and GEF is to preserve the purchasing power of their respective assets and annual distributions by earning an average annual real return of 5.1% over rolling ten-year periods or longer. The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. These objectives have been met over the periods analyzed above.

**General Endowment Fund
Analysis of Investment Objectives
Ending 5/31/05**



An additional objective of the PUF and the GEF is to outperform the median fund in a universe¹ of similar endowments over rolling five-year periods or longer. Over the five years ending 3/31/2005 (the most recent date for which peer data is available), both the PUF and the GEF have failed to meet this objective.

¹ Universe consists of 35 colleges and universities. Data provided by Cambridge Associates, Inc.

As of May 31, 2005

Permanent University Fund

RETURN SUMMARY

ENDING 5/31/05

	Quarter Ending 5/31/2005	1 Year Ending 5/31/2005	3 Years Ending 5/31/2005	5 Years Ending 5/31/2005	Since Inception	Inception Date
Permanent University Fund	0.1%	13.4%	10.0%	5.5%	9.6%	5/31/1993
Endowment Performance Benchmark(PUF)	1.9	12.0	7.8	3.9	10.3	
U.S. Equity	1.6	14.5	7.8	3.8	11.2	5/31/1993
U.S. Equity Performance Benchmark (PUF)	1.3	13.7	8.0	0.9	11.4	
Global Ex U.S. Equity	-4.1	16.4	11.7	0.5	6.2	5/31/1993
Global Ex U.S. Equity Benchmark (PUF)	-4.7	16.8	11.3	1.4	7.5	
Equity Hedge Funds	-0.1	9.0	--	--	9.0	12/31/2003
90-Day T-Bill + 4%	1.7	6.1	--	--	5.8	
Absolute Return Hedge Funds	0.2	10.7	10.6	11.9	12.3	2/29/2000
Absolute Return Benchmark (PUF)	1.5	5.1	5.4	7.9	8.2	
Private Capital	4.5	22.3	7.3	-0.2	13.7	5/31/1993
Venture Economics Index	11.9	18.4	5.2	1.2	17.8	
Commodities	-1.7	8.1	--	--	16.0	12/31/2003
Goldman Sachs Commodity Index - 1%	-3.1	8.1	--	--	18.6	
Total Fixed Income	1.8	8.6	8.2	8.8	7.3	5/31/1993
Fixed Income Benchmark (PUF)	2.2	7.5	6.4	7.2	6.8	

- The Permanent University Fund underperformed the Endowment Performance Benchmark by 1.8 percentage points during the fiscal quarter ending May 31, 2005. Relative underperformance from the private capital and hedge fund asset classes was primarily responsible for the below benchmark result. U.S. equities, global ex U.S. equities, and commodities were able to add modest value versus their respective benchmarks, while total fixed income moderately lagged.
- Over the one-year period, the Permanent University Fund added 1.4 percentage points of value over its benchmark. Asset class results were generally positive, with only global ex U.S. equity lagging its benchmark. Strong relative returns from the private capital and hedge fund components accounted for the bulk of the outperformance.
- Benchmarks for each of the total fund's asset class components (e.g. U.S. Equity and Absolute Return Hedge Funds, etc.) have been modified to reflect the components of the Board of Regents approved historical total fund benchmarks.

As of May 31, 2005

General Endowment Fund

RETURN SUMMARY

ENDING 5/31/05

	Quarter Ending 5/31/2005	1 Year Ending 5/31/2005	3 Years Ending 5/31/2005	5 Years Ending 5/31/2005	Since Inception	Inception Date
General Endowment Fund	0.1%	13.4%	10.2%	5.7%	10.3%	5/31/1993
Endowment Performance Benchmark(GEF)	1.9	12.0	7.8	3.8	10.2	
U.S. Equity	1.6	14.4	7.8	3.0	11.2	5/31/1993
U.S. Equity Performance Benchmark (GEF)	1.3	13.7	8.0	1.1	11.2	
Global Ex U.S. Equity	-4.1	16.8	11.9	0.7	5.6	5/31/1993
Global Ex U.S. Equity Benchmark (GEF)	-4.7	16.8	11.3	1.4	5.8	
Equity Hedge Funds	-0.1	9.0	--	--	9.0	12/31/2003
90-Day T-Bill + 4%	1.7	6.1	--	--	5.8	
Absolute Return Hedge Funds	0.2	10.9	10.6	12.2	11.1	7/31/1998
Absolute Return Benchmark (GEF)	1.5	5.1	5.4	7.9	8.8	
Private Capital	4.0	21.4	6.6	-0.3	14.8	5/31/1993
Private Capital Benchmark (GEF)	11.9	18.4	5.2	1.2	17.8	
Commodities	-1.7	8.2	--	--	16.1	12/31/2003
Goldman Sachs Commodity Index - 1%	-3.1	8.1	--	--	18.6	
Total Fixed Income	1.7	8.4	8.3	8.8	7.6	5/31/1993
Fixed Income Benchmark (GEF)	2.2	7.5	6.4	7.2	6.7	

- The General Endowment Fund underperformed the Endowment Performance Benchmark by 1.8 percentage points during the fiscal quarter ending May 31, 2005. Relative underperformance from private capital and the hedge fund asst classes was primarily responsible for the below benchmark result. U.S. equities, global ex U.S. equities, and commodities were able to add modest value versus their respective benchmarks, while total fixed income moderately lagged.
- Over the one-year period, the General Endowment Fund added 1.4 percentage points of value over its benchmark. Asset class results were generally positive, with only global ex U.S. equities failing to add value versus its benchmark over the period. Strong relative returns from the private capital and hedge fund components accounted for the bulk of the outperformance.
- Benchmarks for each of the total fund's asset class components (e.g. U.S. Equity and Absolute Return Hedge Funds, etc.) have been modified to reflect the components of the Board of Regents approved historical total fund benchmarks.

As of May 31, 2005

Operating Funds

RETURN SUMMARY

ENDING 5/31/05

	Quarter Ending 5/31/2005	1 Year Ending 5/31/2005	3 Years Ending 5/31/2005	5 Years Ending 5/31/2005	Since Inception	Inception Date
Short Term Fund	0.7%	2.0%	1.5%	2.7%	4.1%	8/31/1992
ML 90-day T-Bill	0.7	2.0	1.5	2.7	4.0	
Short Intermediate Term Fund	1.0	2.9	2.2	4.3	4.9	2/28/1993
Performance Benchmark ¹	1.0	1.8	2.7	4.8	5.1	
BGI U.S. Debt Index Fund	1.9	6.8	5.9	7.8	6.8	5/31/1999
LB Aggregate Bond Index	1.9	6.8	5.9	7.7	6.8	
BGI Equity Index Fund	-0.5	8.3	5.6	-1.9	0.1	5/31/1999
S&P 500 Index	-0.6	8.2	5.6	-1.9	0.0	

- The Short Term Fund approximated the performance of the benchmark during the periods shown above.
- The Short Intermediate Term Fund approximated the return of the Index during the fiscal quarter and outperformed over the trailing year. Longer term performance is below-benchmark
- The BGI U.S. Debt Index approximated the performance of the benchmark during the periods shown above. Participants investing in the BGI U.S. Debt Index liquidated their positions during April of 2004.
- The BGI Equity Index Fund approximated the performance of its benchmark during the periods shown above.

¹ Returns for this benchmark from inception through July 31, 2004 have been supplied by UTIMCO. The composition of the benchmark is understood as including six government bond components obtained from Bloomberg in a weighted average composite. Beginning August 1, 2004 returns are those of the Merrill Lynch 1-3 Year Treasury Index.

7. **U. T. System: Approval of aggregate amount of equipment financing for Fiscal Year 2006 and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. approve an aggregate amount of \$95,511,000 of Revenue Financing System Equipment Financing as allocated to those U. T. System institutions set out on Page 39.1; and
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;
 - the institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$95,511,000 for the purchase of equipment; and
 - this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

At the April 14, 1994 meeting, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This Agenda Item requests approval of an aggregate amount of \$95,511,000 for equipment financing for Fiscal Year 2006.

The U. T. System Board of Regents approved \$109,760,000 of equipment financing in Fiscal Year 2005, of which \$62,113,000 has been issued through June 30, 2005.

Further details on the equipment to be financed and debt coverage ratios for individual institutions can be found on Page 39.1.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2006

Institution	\$ Amount of Request	Description of Expected Equipment Purchases	DSC*	
			Min	Max
U. T. Austin	\$1,500,000	Classroom and research equipment, and technology infrastructure	3.30	4.26
U. T. Brownsville	435,000	Various mechanized equipment and vehicles	2.46	2.92
U. T. Dallas	5,000,000	SCT Banner Enterprise Resource Planning (ERP) hardware, software, and services	(0.15)	3.42
U. T. El Paso	926,000	Technology infrastructure, and vehicle replacement	1.54	2.31
U. T. San Antonio	5,200,000	Scientific and lab equipment	2.03	2.69
U. T. Southwestern Medical Center - Dallas	35,000,000	Clinical & hospital equipment, technology infrastructure	2.35	3.05
U. T. Medical Branch - Galveston	20,000,000	Clinical & information technology equipment	1.43	1.79
U. T. Health Science Center - San Antonio	4,000,000	Research & clinical equipment	2.05	2.75
U. T. M. D. Anderson Cancer Center	20,000,000	Research & clinical equipment	3.34	5.07
U. T. Health Center - Tyler	3,450,000	Clinical equipment	2.12	8.57
Total				
	\$95,511,000			

* Debt Service Coverage ("DSC") is net revenue divided by debt service.

U. T. System Office of Finance, June 23, 2005

8. U. T. System: Permanent University Fund quarterly update

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Committee on changes in the forecasted distributions from the Permanent University Fund (PUF) to the Available University Fund (AUF) and the resulting impact on remaining PUF debt capacity, U. T. Austin Excellence Funds, and the AUF balance.

REPORT

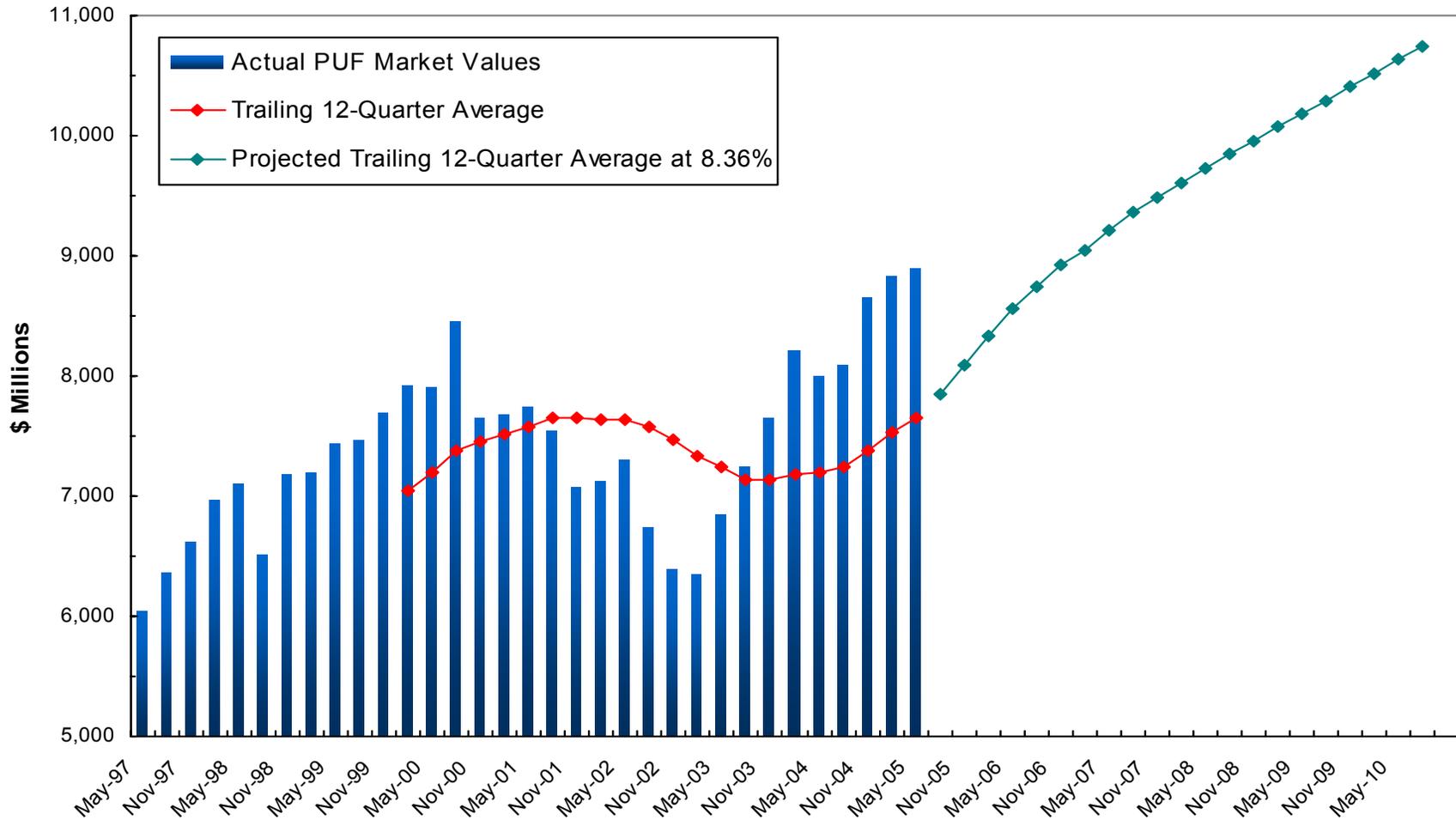
A summary of the assumptions used in calculating the PUF debt capacity is provided on Page 40.1. As of May 31, 2005, the market value of the PUF was \$8.9 billion compared to \$8.8 billion as of February 28, 2005 (Figure A on Page 40.2). During Fiscal Year 2006, \$357.3 million will be distributed to the AUF, compared to \$341.2 million in Fiscal Year 2005 (Figure B on Page 40.3). PUF distributions to the AUF are projected to steadily increase and are not projected to be capped due to constitutional purchasing power restrictions.

There is an estimated \$384 million of additional debt capacity through Fiscal Year 2010 beyond the PUF projects currently approved, assuming a 8.36% investment return (Figure C on Page 40.4). PUF debt capacity is affected by various factors, some of which are determined by the Board while others are dependent on future market conditions (Figure D on Page 40.5).

PUF Debt Capacity Base Case Assumptions

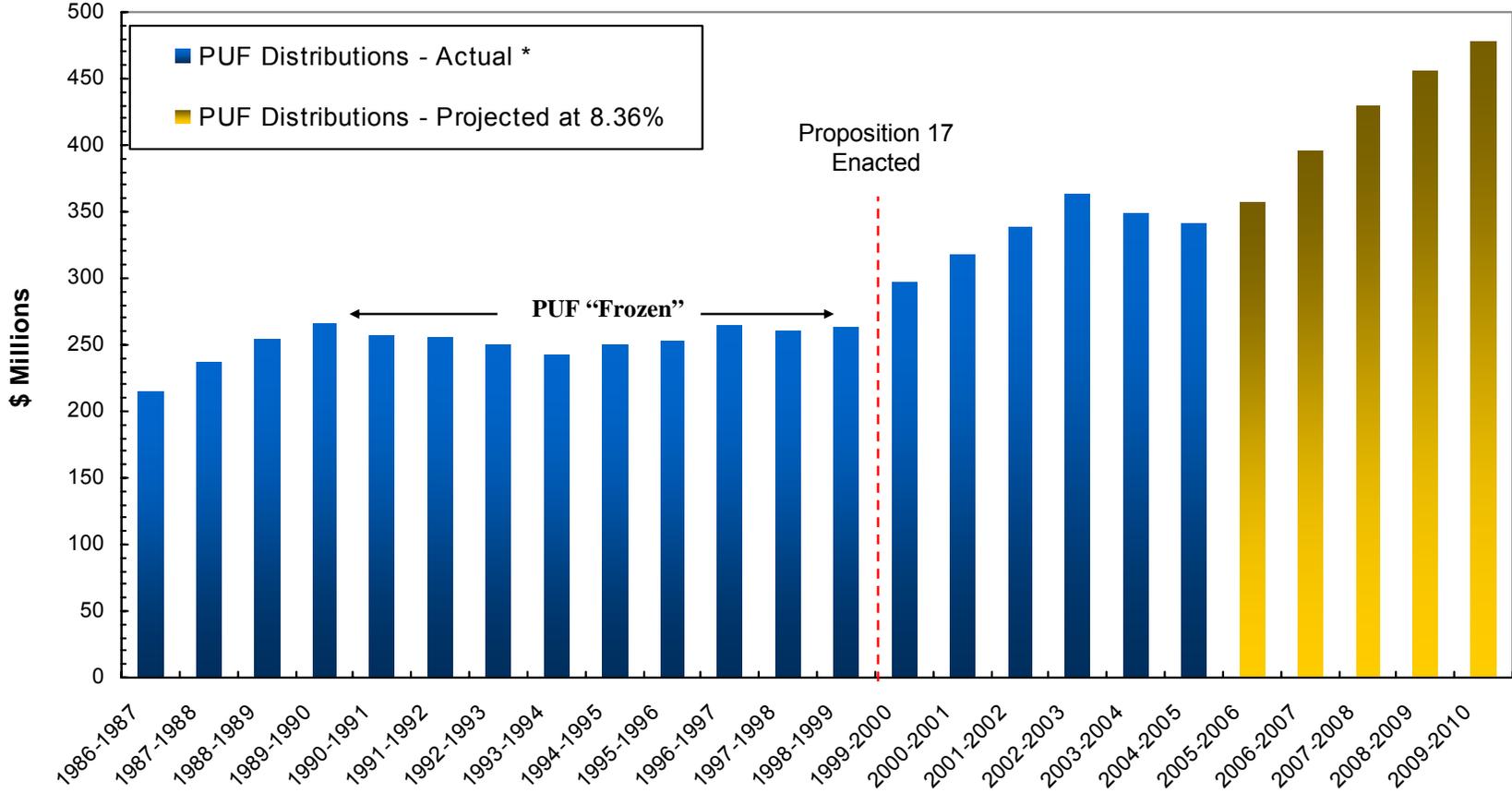
- PUF Distribution equals 4.75% of the average PUF net asset value for the trailing 12 quarters, unless restricted by Constitutional purchasing power requirements.
- U. T. Austin Excellence Funds equal 45% of the income available to U. T. System.
- Includes all PUF projects approved through May 2005.
- Forecasted PUF distribution amounts provided by UTIMCO based on long-term expected average annual rate of return of 8.36% starting from the PUF market value as of May 31, 2005.
- Annual Library, Equipment, Repair and Rehabilitation (“LERR”) appropriations of \$30 million are projected to continue from FY 2007 through FY 2010. For FY 2006, LERR appropriations are projected at \$60 million along with an additional \$10 million LERR appropriation to U. T. Dallas associated with Project Emmitt.
- PUF debt service on additional capacity structured as 20-year, tax-exempt debt with level debt service.

Projected Trailing 12-Quarter PUF Market Value Average



40.2

Permanent University Fund Distributions



* Effective September 1, 1997, a statutory amendment changed the distribution of income from cash to an accrual basis, resulting in a one-time distribution adjustment to the AUF of \$47.3 million that is not reflected.

PUF Debt Capacity-Base Case at 8.36%

Additional PUF Debt Capacity (\$384 Million)		\$0.0	\$294.4	\$0.0	\$0.0	\$35.8	\$53.8
Cumulative Additional PUF Debt Capacity		\$0.0	\$294.4	\$294.4	\$294.4	\$330.2	\$384.0
Available University Fund Operating Statement Forecast Data (\$ Millions)	Actual	Projected					
	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FYE 10
PUF Distribution Amount	\$348.0	\$341.2	\$367.3	\$396.1	\$429.8	\$456.4	\$478.2
Surface & Other Income	7.6	7.2	7.0	7.0	7.0	7.1	7.1
Divisible Income	355.6	348.4	364.4	403.2	436.8	463.4	485.3
UT System Share (2/3)	237.1	232.3	242.9	268.8	291.2	308.9	323.5
AUF Interest Income	3.0	4.8	4.7	5.0	4.9	5.0	5.3
Income Available to U.T.	240.1	237.1	247.6	273.7	296.1	314.0	328.8
TRANSFERS:							
UT Austin Excellence Funds (45%)	(108.3)	(105.3)	(111.4)	(123.2)	(133.2)	(141.3)	(148.0)
PUF Debt Service on Approved Projects	(71.6)	(79.6)	(90.7)	(108.0)	(110.6)	(112.9)	(115.7)
PUF Cash Defeasance	(60.0)	-	-	-	-	-	-
PUF Debt Service on Add. Debt Capacity	-	-	(23.3)	(23.3)	(23.3)	(26.3)	(30.7)
System Administration	(27.9)	(27.7)	(29.7)	(30.6)	(31.5)	(32.4)	(33.4)
Other	(4.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Debt Service (Bldg Rev)	(3.4)	-	-	-	-	-	-
Net Surplus/(Deficit)	(35.7)	23.4	(8.6)	(12.4)	(3.7)	0.0	0.0
Ending AUF Balance - System	46.3	69.7	61.1	48.7	45.0	45.0	45.0
PUF Debt Service Coverage	3.35:1	2.98:1	2.17:1	2.08:1	2.21:1	2.26:1	2.25:1
Assumed Annual LERR Appropriations	40.0	100.0	70.0	30.0	30.0	30.0	30.0

40.4

PUF Debt Capacity Sensitivities at 8.36%

40.5

	Board-Determined	Board-Determined	Board-Determined	Market-Dependent	Market-Dependent	Additional Debt Capacity (\$ Millions)						TOTAL	Projected PUF
	Annual LERR	U.T. Austin Excellence	PUF Distribution Rate	PUF Investment Return	Change in Tax-Exempt Rates	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2005-FY 2010	Market Value in FY 2030
	\$30 Million	45.0%	4.75%	8.36%	NA	0.0	294.4	0.0	0.0	35.8	53.8	384.0	23,367,518,747
	\$30 Million	45.0%	4.75%	8.36%	NA	0.0	294.4	0.0	0.0	35.8	53.8	384.0	23,367,518,747
	\$20 Million	45.0%	4.75%	8.36%	NA	0.0	304.4	10.0	10.0	45.8	63.8	434.0	23,367,518,747
	\$10 Million	45.0%	4.75%	8.36%	NA	0.0	314.4	20.0	20.0	55.8	73.8	484.0	23,367,518,747
	None	45.0%	4.75%	8.36%	NA	0.0	324.4	30.0	30.0	65.8	83.8	534.0	23,367,518,747
	\$30 Million	40.0%	4.75%	8.36%	NA	0.0	401.4	0.0	31.9	92.2	62.8	588.3	23,367,518,747
	\$30 Million	45.0%	4.75%	8.36%	NA	0.0	294.4	0.0	0.0	35.8	53.8	384.0	23,367,518,747
	\$30 Million	50.0%	4.75%	8.36%	NA	0.0	166.1	0.0	0.0	0.0	13.4	179.6	23,367,518,747
	\$30 Million	45.0%	4.50%	8.36%	NA	0.0	226.1	0.0	0.0	0.0	47.5	273.6	24,783,201,972
	\$30 Million	45.0%	4.75%	8.36%	NA	0.0	294.4	0.0	0.0	35.8	53.8	384.0	23,367,518,747
	\$30 Million	45.0%	5.00%	8.36%	NA	0.0	361.3	0.0	0.0	77.4	55.1	493.8	22,018,913,423
	\$30 Million	45.0%	4.75%	7.36%	NA	0.0	291.2	0.0	0.0	15.9	32.7	339.8	18,257,771,595
	\$30 Million	45.0%	4.75%	8.36%	NA	0.0	294.4	0.0	0.0	35.8	53.8	384.0	23,367,518,747
	\$30 Million	45.0%	4.75%	9.36%	NA	0.0	297.7	0.0	0.0	55.6	75.1	428.4	29,779,734,437
	\$30 Million	45.0%	4.75%	8.36%	+ 50 bps	0.0	275.9	0.0	0.0	30.2	50.6	356.7	23,367,518,747
	\$30 Million	45.0%	4.75%	8.36%	NA	0.0	294.4	0.0	0.0	35.8	53.8	384.0	23,367,518,747
	\$30 Million	45.0%	4.75%	8.36%	-50 bps	0.0	314.3	0.0	0.0	41.7	57.2	413.2	23,367,518,747

9. **U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds not to exceed \$300,000,000 and authorization to complete all related transactions**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt a Resolution, substantially in the form previously approved by the Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund Bonds in one or more installments in an aggregate principal amount not to exceed \$300,000,000 to be used to refund certain outstanding Permanent University Fund Bonds, to refund all or a portion of the then outstanding Permanent University Fund Flexible Rate Notes, Series A, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

Adoption of the Resolution would authorize the advance refunding of a portion of certain outstanding Permanent University Fund (PUF) Bonds provided the refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing.

As provided in the Resolution, the potential bonds to be refunded include up to

- \$97,395,000 of PUF Bonds, Series 1996, maturing 2007-2010
- \$85,545,000 of PUF Bonds, Series 2002B, maturing 2020-2022
- \$17,240,000 of PUF Bonds, Series 2004A, maturing 2015-2016
- \$396,520,000 of PUF Bonds, Series 2004B, maturing 2023-2033

The Resolution would also authorize the refunding of the PUF Flexible Rate Notes, Series A. The PUF Flexible Rate Note program is used to provide interim financing for

PUF projects approved by the Board. Adoption of the Resolution will permit the interim financing provided through the Notes to be replaced with long-term financing provided through the issuance of the Series 2006 Bonds.

Proceeds from the Series 2006 Bonds will be used to purchase U.S. government or other eligible securities to be placed in one or more escrow accounts. Proceeds from the escrowed securities will be used to redeem the refunded bonds and the refunded Flexible Rate Notes.

The proposed Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The proposed Resolution is available on-line at <http://www.utsystem.edu/bor/AgendaBook/Aug05/8-10&11-05Meetingpage.htm>.

10. U. T. System Board of Regents: Adoption of Fifteenth Supplemental Resolution authorizing Revenue Financing System Bonds in an amount not to exceed \$600,000,000; authorization to complete all related transactions; and resolution regarding parity debt

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt the Fifteenth Supplemental Resolution to the Master Resolution, substantially in the standard form approved by the Board of Regents on November 13, 2003, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Bonds in one or more installments in an aggregate principal amount not to exceed \$600,000,000 with a final maturity not to exceed the Year 2037 for the purpose of refunding a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A; to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program; to advance refund certain outstanding Revenue Financing System Bonds to produce present value debt service savings; and to pay the costs of issuance and any original issue discount;
- b. authorize issuance of the Bonds and the execution of corresponding interest rate swap transactions for the purposes of hedging the interest rates of the Bonds consistent with the U. T. System Interest Rate Swap Policy; and
- c. authorize appropriate officers and employees of the U. T. System as set forth in the Fifteenth Supplemental Resolution to take any and all actions

necessary to carry out the intentions of the U. T. System Board of Regents, within the limitations and procedures specified therein, make certain covenants and agreements in connection therewith; and resolve other matters incident and related to the issuance, sale, security, and delivery of such Bonds.

The Chancellor also concurs with the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the U. T. System Board of Regents on February 14, 1991, amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as required by Section 5 of the Master Resolution, the U. T. System Board of Regents resolve that

- a. sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System; and
- b. the institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt Parity Debt.

BACKGROUND INFORMATION

On February 14, 1991, the U. T. System Board of Regents adopted a Master Resolution establishing the Revenue Financing System (RFS) to create a cost-effective, System-wide financing structure for institutions of the U. T. System. Since that time, the Board has adopted 14 supplemental resolutions to provide debt financing for projects that have received the requisite U. T. System Board of Regents and Texas Higher Education Coordinating Board approvals.

Adoption of the Fifteenth Supplemental Resolution (Resolution) would authorize the advance refunding of certain outstanding RFS Bonds provided the refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. The Resolution provides authority to execute interest rate swap agreements to effectively hedge the interest rate on the bonds. The determination to utilize an interest rate swap agreement will be made based on market conditions at the time of pricing and will be in accordance with the U. T. System Interest Rate Swap Policy approved by the Board in February 2003 using standard International Swaps and

Derivatives Association, Inc. (ISDA) documentation. The Chairman of the Board of Regents and the Chairman of the Finance and Planning Committee will be informed of any proposed transactions to be undertaken pursuant to the Resolution.

In addition, the Resolution authorizes remarketing, tender, auction and broker-dealer agreements customarily utilized in connection with the types of variable rate instruments authorized.

The Resolution also authorizes the refunding of a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, and provides new money to fund construction and acquisition costs of projects in the Capital Improvement Program. Generally, commercial paper debt is issued to fund projects during the construction phase and the debt is not amortized. Once construction is complete, the commercial paper is refunded with bonds. Depending on the level of interest rates at the time of pricing, outstanding commercial paper and new money for construction may be financed with long-term debt.

As provided in the Resolution, the potential bonds to be refunded include up to

- \$8,985,000 of RFS Bonds, Series 1995A, maturing 2006-2017
- \$24,485,000 of RFS Bonds, Series 1996A, maturing 2007-2016
- \$3,605,000 of RFS Bonds, Series 1998A, maturing 2014-2018
- \$56,185,000 of RFS Bonds, Series 1998B, maturing 2008 and 2012-2018
- \$3,365,000 of RFS Bonds, Series 1998C, maturing 2019
- \$39,725,000 of RFS Bonds, Series 2001B, maturing 2020-2022
- \$18,770,000 of RFS Bonds, Series 2001C, maturing 2020-2022
- \$69,765,000 of RFS Bonds, Series 2003A, maturing 2014-2023
- \$362,505,000 of RFS Bonds, Series 2003B, maturing 2014-2033.

Adoption of this Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing provided the refunding achieves the minimum 3% savings target. The particular bonds to be refunded will be called for redemption, at par plus accrued interest, on the first practical optional redemption date for each series of refunded bonds occurring after the delivery of the refunding bonds.

The proposed Fifteenth Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The Fifteenth Supplemental Resolution and forms of auction agreement and broker-dealer agreement are in substantially the same form as the Thirteenth Supplemental Resolution, Fourteenth Supplemental Resolution, and forms of auction agreement and broker-dealer agreement previously approved by the Board on November 13, 2003 for use as standard agreements. These documents have not been included as part of the agenda materials, but are available upon request.



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Committee Meeting: 8/10/2005

Board Meeting: 8/11/2005
U. T. Medical Branch - Galveston

Cyndi Taylor Krier, Chairman
H. Scott Caven, Jr.
Judith L. Craven, M.D.
Robert A. Estrada
Robert B. Rowling

	Committee Meeting	Board Meeting	Page
Convene	<i>2:30 p.m.</i> <i>Chairman Krier</i>		
1. U. T. System: Reports from academic presidents, Academic Affairs Committee members, and Executive Vice Chancellor Sullivan	<i>2:35 p.m.</i> Report <i>Presidents</i> <i>Dr. Sullivan</i>	Not on Agenda	45
2. U. T. Arlington: Authorization to purchase the real property and improvements located at 200 East Loop 820, Fort Worth, Tarrant County, Texas, at fair market value as established by independent appraisals, for use as a computing center	<i>2:45 p.m.</i> Action <i>President</i> <i>Spaniolo</i> <i>Ms. Mayne</i>	Action	45
3. U. T. Austin: Authorization to contract with FLIK International Corporation Conference Center Management for management of The University of Texas Professional Education and Conference Center and delegate approval authority	<i>2:50 p.m.</i> Action <i>President</i> <i>Faulkner</i>	Action	48
4. U. T. El Paso: Authorization to purchase the unimproved real property located at 1614 Hawthorne Street, El Paso, El Paso County, Texas, at fair market value as established by an independent appraisal, to construct a parking lot	<i>2:55 p.m.</i> Action <i>President</i> <i>Natalicio</i> <i>Ms. Mayne</i>	Action	51
5. U. T. Pan American: Authorization to purchase the unimproved land located along the north side of West University Drive, west of Sugar Road and adjacent to the southwest corner of the campus Physical Plant, in Edinburg, Texas, described as the east approximately 16.42 acres west of Canal out of Lot 5, Section 273, Texas-Mexican Railway Company Subdivision, City of Edinburg, Hidalgo County, Texas, at fair market value as established by independent appraisals, for expansion of the campus to accommodate future academic facilities and resolution regarding parity debt	<i>3:00 p.m.</i> Action <i>President</i> <i>Cárdenas</i> <i>Ms. Mayne</i>	Action	53

	Committee Meeting	Board Meeting	Page
6. U. T. Pan American: Authorization to purchase the real property and improvements located at 521 North Jackson Road, Edinburg, Hidalgo County, Texas, at fair market value as established by independent appraisals, for future campus expansion and resolution regarding parity debt	3:03 p.m. Action <i>President Cárdenas</i> <i>Ms. Mayne</i>	Action	56
7. U. T. Pan American: Request to name the Raúl Yzaguirre Policy Institute and approve the creation of an advisory council to be known as the Raúl Yzaguirre Policy Institute Advisory Council (Regents' Rules and Regulations, Series 60302, regarding advisory councils)	3:05 p.m. Action <i>President Cárdenas</i>	Action	58
8. U. T. San Antonio: Request to create the College of Public Policy Advisory Council (Regents' Rules and Regulations, Series 60302, regarding advisory councils)	3:10 p.m. Action <i>President Romo</i>	Action	59
9. U. T. San Antonio: Request to create the College of Sciences Advisory Council (Regents' Rules and Regulations, Series 60302, regarding advisory councils)	3:15 p.m. Action <i>President Romo</i>	Action	60
10. U. T. San Antonio: Authorization to establish a Ph.D. degree program in Anthropology	3:18 p.m. Action <i>President Romo</i>	Action	60
11. U. T. Brownsville: Discussion and appropriate action regarding proposed revisions to Mission Statement for U. T. Brownsville/Texas Southmost College Partnership	3:20 p.m. Action <i>President García</i>	Action	62
12. U. T. Arlington: Discussion of compact priorities	3:25 p.m. Discussion <i>President Spaniolo</i> <i>Dr. Sullivan</i>	Not on Agenda	64
13. U. T. System Board of Regents: Update regarding Task Force on Admissions, Tuition, and Financial Aid	3:35 p.m. Report <i>Dr. Sullivan</i>	Not on Agenda	65
14. U. T. System: Discussion of System-wide initiative to improve graduation rates	3:40 p.m. Discussion <i>Dr. Sullivan</i>	Not on Agenda	65
Adjourn	3:45 p.m.		

1. **U. T. System: Reports from academic presidents, Academic Affairs Committee members, and Executive Vice Chancellor Sullivan**

The academic presidents, committee members, and Dr. Sullivan may report briefly on new developments taking place at each campus. These oral reports may include areas such as new research grants, significant collaborations with external agencies, or any other topic deemed to be important. This is a quarterly update to the Academic Affairs Committee of The University of Texas System Board of Regents.

2. **U. T. Arlington: Authorization to purchase the real property and improvements located at 200 East Loop 820, Fort Worth, Tarrant County, Texas, at fair market value as established by independent appraisals, for use as a computing center**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Spaniolo that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Arlington, to

- a. purchase the real property and improvements located at 200 East Loop 820, Fort Worth, Tarrant County, Texas, at fair market value as established by independent appraisals, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate; and
- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments and other agreements, and take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

U. T. Arlington leases the subject property, consisting of 2.5 acres with a 51,200 square foot office building, to house the institution's data center, which was moved from its previous location on campus in early 2005 due to multiple deficiencies associated with its location in the basement of Davis Hall. The University's MyMav programming team working on conversion of the student information system has also relocated to the building, now known as the UTA Computing Center. Since entering into the existing

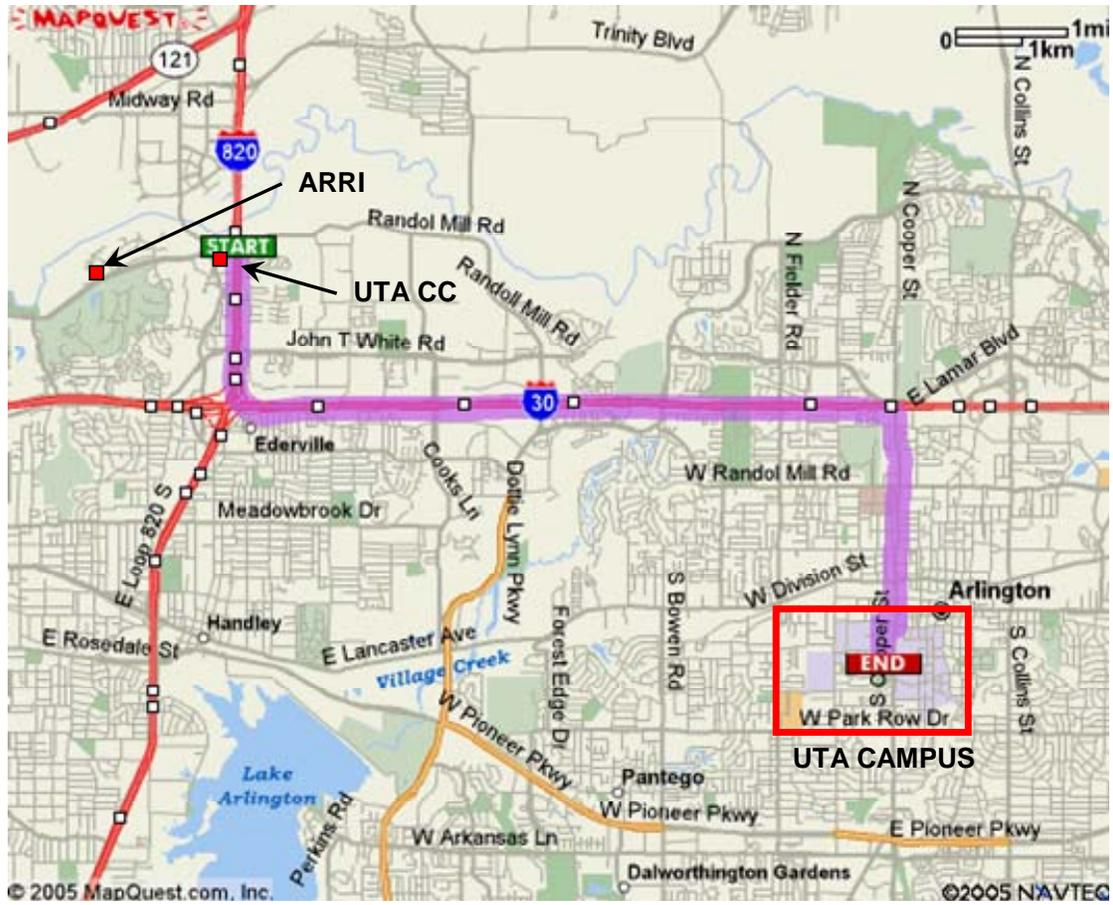
Space Lease Agreement in December 2004, U. T. Arlington has made extensive fire suppression enhancements and other improvements at a cost exceeding \$500,000.

The terms of the existing Space Lease Agreement include an option to purchase the building within certain time restrictions. U. T. Arlington wishes to purchase the building within the option period to preserve its investment in the improvements and avoid future increases in the acquisition cost of the property. Additionally, acquisition of the building will assist in accomplishing the goals of the U. T. System Strategic Leadership Council's Data Center Consolidation Advisory Group, which has proposed utilizing the UTA Computing Center as one of three data centers across the state.

U. T. Arlington will use available cash balances for the purchase estimated at \$8.5 million, the terms and conditions of which are reflected in the transaction summary below:

Transaction Summary

Institution:	U. T. Arlington
Type of Transaction:	Purchase
Total Area:	2.5 acres
Improvements:	Two-story, 51,200 square foot office and data center building
Location:	200 East Loop 820, Fort Worth, legally described as Lot 1, Block 1, Trinity Properties Addition, Fort Worth, Tarrant County, Texas; see map on Page 47
Seller:	Trinity Recovery Services, Inc.
Purchase Price:	\$8.5 million
Appraised Values:	\$8.5 million (National Appraisal Group, January 11, 2005) \$8.5 million (Integra Realty Resources, February 1, 2005)
Source of Funds:	Available cash balances
Intended Use:	UTA Computing Center



3. **U. T. Austin: Authorization to contract with FLIK International Corporation Conference Center Management for management of The University of Texas Professional Education and Conference Center and delegate approval authority**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, and President Faulkner that The University of Texas System Board of Regents, on behalf of The University of Texas at Austin

- a. authorize a contract for a management services agreement with FLIK International Corporation Conference Center Management to manage The University of Texas Professional Education and Conference Center when it is completed; and
- b. delegate authority to the Executive Vice Chancellor for Business Affairs to execute all documents, instruments, and other agreements subject to approval of all such documents as to legal form by the Office of General Counsel and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing actions.

BACKGROUND INFORMATION

On May 13, 1999, the U. T. System Board of Regents approved adding the building of a professional education and conference center titled "the Hotel and Conference Center project" to the Capital Improvement Program for U. T. Austin. The center will consist of state-of-the-art conference facilities supported by approximately 250-300 guest rooms, high quality food service, and parking.

On November 4, 2004, the Board approved acquisition of seven parcels of land to be used for the education and conference center and the associated campus parking garage. The acquisitions were approved by the Texas Higher Education Coordinating Board on December 10, 2004. Negotiations have resulted in multiple contracts to purchase the required parcels.

The Red McCombs School of Business is the anchor client for the project and has determined that without a facility of this sort, the School will not be able to reach the national level of prominence that it otherwise could. In fact, of the top 20 business schools, only U. T. Austin does not have some sort of residential learning center.

A feasibility study was conducted by Horwath Horizon Hospitality Advisors, LLC and first submitted to U. T. Austin on July 12, 2002. An updated study was provided by Horwath on March 25, 2005. A copy of the updated study is set forth on Pages 50.1 - 50.29. The original market study is available at <http://www.utexas.edu/vp/ecs/hotel/FeasibilityStudy.pdf>. President Faulkner will make a PowerPoint presentation as set forth on Pages 50.30 - 50.33.

The major findings and assumptions of the updated feasibility study are the following:

1. No facilities in Austin meet the education center needs of the campus.
2. Because the market is defined as “U. T.-focused” the competitive status of the facility with the downtown market is minimized.
3. The overall design and outfitting of the facility will position it as the signature university center of this type in the country.
4. A major focus of the long-range marketing strategy will be on the promotion and support of regional, national, and international academic symposia featuring the prominent faculty of U. T. Austin.
5. A specific effort that will be included in the University’s education center support plan is a comprehensive program for the support of faculty and staff who sponsor and organize academic conferences, symposia, and related events.
6. The facility will provide superior meeting facilities to a broad array of target markets including the University, State of Texas agencies, education-oriented state associations, and business and leisure travelers who have a direct tie to the University.
7. The pro forma (Exhibit A on Page 50.22) predicts a strong revenue stream of unrestricted income that will be required for the bonds needed to construct the facility.

Because of its size and range of academic departments, institutes, and research programs, U. T. Austin is well-suited to support a facility of this type. The consultant for the project says, “The overall demand levels identified in our research and the outstanding variety of potential sources of demand from the University community set this project apart from essentially every other university conference center in the country.”

This facility has the potential to positively impact the University in a variety of ways. It will become the “living room” of the campus, open to all faculty and staff for a variety of activities including conferences, symposia, meetings, and dining. It is anticipated that the Campus Club, a dining facility for faculty and staff, will relocate to the facility. The professional education and conference center will promote the development of community throughout the campus, an important goal for all.

FLIK International Corporation Conference Center Management is a division of the Compass Group, a publicly traded company on the London Stock Exchange consisting of 400,000 employees and the most recent annual sales volume of \$19 billion.

On July 15, 2004, U. T. Austin issued a Request for Proposals titled "Request for Proposal to Select a Manager/Operator for the Center." The following seven companies responded to the Request for Proposals issued by the University: Aramark Harrison Lodging; Benchmark Hospitality International; Dolce International; FLIK International Corp./Compass Group; Marezana-Norris Group; Marriott International; and Sodexo Corporate Services.

The management contract is proposed for an initial term of 10 years, with two five-year extensions beginning with the opening date of the facility, estimated to be September 1, 2008. Termination may occur 180 days after notice by either party or 30 days after payment or other material default. Early termination fees are due if the facility is closed or if the contract is terminated for reasons other than default. A termination fee, if any, will not exceed the management fee for one year.

The fixed management fee is estimated to be as follows:

<u>Year</u>	<u>Management Fee</u>
1	\$521,403
2	\$651,733
3	\$724,066
4	\$773,743
5	\$794,818
6-10	\$810,000

Compass Group will have the opportunity to earn a quarterly incentive, as additional compensation, up to a total annual incentive fee not greater than 15% of the fixed management fee. The incentive fee will be based on mutually agreed quarterly objectives, incentive goals, measurable criteria, and scoring for customer satisfaction, quality, and service.

Other significant financial terms of the proposed agreement include:

- Compass Group will guarantee \$1,000,000 to U. T. Austin; of this amount, \$100,000 will be applied toward the management fee for the first year; should operating losses occur the first two years, U. T. Austin may request up to \$900,000 be applied toward any operating loss; any remaining balance of this guarantee will be equally divided and applied toward the management fee for the remaining years of the agreement
- Compass Group will purchase up to \$2,000,000 of furniture, fixtures, and equipment for the facility, and lease this investment to U. T. Austin for 10 years at an annual interest rate of 2%; title will be transferred to U. T. Austin after the 10-year lease.

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Exhibits

Exhibit A

Estimated Statements of Cash Flow from Operations after Debt Service
for the years ending August 31, 2009 [Year 1] through 2013 [Year 5]
Expressed in Thousands of Inflated Dollars

Appendices

Appendix A: The Conference Center Concept

Appendix B: Comparable Local Hotel Market Summary

Appendix C: Factors in the Analysis

INTRODUCTION AND ASSUMPTIONS

The University of Texas at Austin (“the University”) is planning the development of a hotel and conference center on its main campus. The University has determined a substantial need for both hotel accommodations and high quality meeting space based on ongoing indications of demand from organizations across the campus including colleges/schools, administrative divisions, alumni, and intercollegiate athletic programs.

The University has contracted for two prior independent assessments of the mission-related contribution of an on-campus hotel and conference center (“the Project”), including an evaluation of its financial viability. A basic premise of the Project assessment that was undertaken in the 2002 edition of the market analysis was that the use of the facility would be limited to demand sources with an official affiliation or connection with the University, the University of Texas System, other agencies of the State of Texas and other entities that have a direct connection with the education mission of the University. A second updated market analysis of the proposed hotel and conference center is the subject of this report, reflecting the current situation and changes to market conditions as of December 2004.

The Project, as envisioned, will support the academic programs of the University and provide valuable and high quality meeting space for the academic and administrative departments of the University. It will also provide a high quality meeting center and hotel that can be used as an important venue for on-campus fund-raising activities and other events sponsored by the development offices of both the University, and many of the colleges and schools.

This report describes the updated situation regarding current market dynamics and changes to the Project plan. It is presented as a condensed report, focusing on an executive summary and on specific significant changes to conditions since the 2002 Market Study report was prepared.

Accordingly, this executive summary report should be considered in the context of the more extensive report prepared and presented in 2002.

Assumptions

The following are key assumptions inherent in the analysis and conclusions presented in this report:

- The facilities and amenities will be generally as outlined in this report, including a 250-key upscale, four-star/four-diamond quality lodging facility, a conference center with approximately 30,000 to 35,000 square feet of superior meeting facilities, a full-service conference dining room, and an amenities package including a substantial health club, a pub/game room, an adjacent campus parking garage [separately financed] and the Campus Club;
- The property will be operated by a nationally recognized hotel/conference center management company having university and other types of conference center operations experience and a reputation for high quality service in all areas of the business. Final contract negotiations are in progress with the selected operator: FLIK International, Inc., the conference center division of The Compass Group-USA;
- The Project will provide superior meeting facilities to the broad array of target markets including the University, State of Texas agencies, education-oriented state associations, and business and leisure travelers who have a direct tie to the University;
- The overall design and outfitting of the Project will position the facility as the signature university conference center in the country. This design philosophy, in conjunction with the selected site at MLK, Jr. Boulevard and University Avenue will result in a dramatic improvement of the status of University Avenue as the primary gateway entry point to the UT Austin campus;
- Based on the intention of limiting access to the executive education center primarily to UT Austin/UT System related demand, the overall potential demand from the external corporate community will be severely restricted in order to support the University's intent that this be a mission-oriented facility;
- Preferred rates will be established for University markets, subject to overall demand levels and a sophisticated yield management program, as is the standard in the hotel and conference center industries;
- A sophisticated, well-funded sales and marketing program based on the Conference Center Concept [Appendix A] will be initiated one year prior to opening and will continue through the period of the projections. A major focus of the long-range marketing strategy will be on the promotion and support of regional, national and international academic symposia featuring the prominent faculty of UT Austin, and other internationally recognized academicians;

- An alcoholic beverage license will be obtained for the Project, will be held by the Operator, and will be maintained throughout the period of the projections;
- A specific effort that will be included in the University's support plan is a comprehensive program for the support of faculty and staff who sponsor and organize academic conferences, symposia and related events;
- There will be no major long-term economic downturns during the period of the projections; and
- The new UT Austin Executive Education Center will have a nearly captive audience by virtue of being on-campus and by providing its superior facilities to the campus community at competitive rates.

EXECUTIVE SUMMARY

The UT Austin Executive Education Center will present the market for The University of Texas, The University of Texas System, the State of Texas and other University related demand sources, with a very high quality conference facility and hotel. Based on Horwath's extensive history of working with, and knowledge of the national university conference/executive education marketplace, we are convinced that the Project will substantially improve the national status of both the University and the Red McCombs School of Business.

The overall demand levels identified in our research and the outstanding variety of potential sources of demand from the University community set this project apart from essentially every other university conference center in the country

The University has identified the preferred site at Martin Luther King, Jr. Boulevard and University Avenue. The Project site is well located to serve the University related target markets within the greater Austin market area, throughout the State of Texas, and the regional and national markets for higher education conferences and events, including support of intercollegiate athletics. The planned site has a strong set of favorable characteristics, with primary benefits being the ability to convert University Avenue into the primary upgraded entry point to the Campus, proximity to the Red McCombs School of Business Administration, and proximity to a number of other valuable assets, including the State Capitol, the Bullock State of Texas History Museum, The Harry Ransom Humanities Research Center and the Jack S. Blanton Museum of Art.

The general conclusion is that Austin will be an outstanding location for a high-end university/executive education center, due to the attractiveness of the City as a tourist destination. This summary conclusion includes the input of an extensive number of potential

user organizations that meet the criteria of having a direct affiliation with the University, the University System and/or the State of Texas.

Our research indicates that there will be substantial demand for the Project including the meeting facilities of the Executive Education Center, the extensive food and beverage functional capability, and the hotel as a commercial and leisure venue for a wide variety of University related independent travelers. This combination of positive factors strongly suggests an economically viable venture.

Economic Environment

In terms of the economic and demographic environment in which the Project will operate, the Austin metropolitan area is considered to provide an excellent foundation, based on the significant diversity of its economic base. While the local and regional economy was impacted by the events of September 11 and a general downturn of the national economy beginning in late 2000, there are clear indications of a turnaround in the economy and a significant reduction in the travel fear factor resulting from 9/11. The long-term prospects for a thriving economy in Austin are considered to be among the best in the country.

Comparable Local Hotel Market

The proposed property will accommodate group meeting, academic seminar/symposia and independent traveler demand from University related sources that are currently hosted by other dedicated conference centers throughout Texas, as well as meetings-oriented and other upscale hotels in Austin. In addressing the evolving status of the downtown upscale hotel market, the basic driving factors over the past four years have been the substantial increase in supply as a result of the opening of the new Austin Convention Center headquarters hotel [The Hilton Austin] and the challenging period for the hotel industry since late 2000 resulting from a negative economic trends and the impact of the terrorist events of September 11, 2001. With these issues being carefully considered, it is obvious that the downtown Austin upscale full-service hotel market has begun a noticeable turnaround. [Market performance is summarized in Appendix B]

The overall performance of the downtown Austin full-service hotel market is expected to improve significantly over the next three to five years. This improved performance from an occupancy standpoint will undoubtedly drive prices up within this segment of the hotel industry, compared to the relatively negative pricing trends over the period from 2000 to 2004. This will be a return to the aggressive pricing strategy most recently experienced in the late 1990s

Changes to the Market and Project Situation since 2002

In responding to the request by the University that Horwath Horizon update the analysis of the market situation to current conditions, a number of new influence factors have been taken into consideration, all of which represent positive influences on the anticipated performance of the Project. Due to these factors, an additional degree of conservatism has been added to the analysis of this project, resulting in considerable upside potential.

The new factors impacting the 2004 analysis include:

1. Finalization of site selection, which eliminates debates about which of two sites previously under consideration is the better site. In the opinion of Horwath Horizon, the MLK Boulevard site is the better site.
2. The completion of an extensive electronic survey of selected 5-year groups of the UT Austin alumni [based on graduation year]. This survey provided substantial documentation that the alumni universe will play a key role in the success of this project.
3. The introduction of a new concept during interviews with deans, faculty chairs and others in the academic community at UT Austin regarding an aggressive effort to provide comprehensive support to the development of new and expanded academic symposia. This symposia development effort should focus on prominent professors within all of the colleges and schools at UT Austin. The reaction to this concept at the Dean/Faculty Chair level was almost unanimously positive in terms of the potential increase in the number of such events that would be held at the UT Austin Executive Education Center compared to what has been the history over the past five to ten years.
4. The addition of the option of a small amount of non-University related demand at the Executive Education Center. A going-in assumption for the current analysis was that ten percent of total revenue can come from non-University customers, without violating any restrictions related to tax-exempt bond financing and ad valorem taxes. In our analysis, to add an additional level of conservatism, this amount of non-restricted use was reduced to between three and five percent for analysis purposes in Year 2 and thereafter.
5. The addition of the faculty club [The Campus Club] to the project in terms of its positive impact on food and beverage revenues [dining and catering], and drawing more faculty members to the Center.
6. The offer from the selected operating company, FLIK/Compass, to bring a substantial amount of its internal corporate meetings to the UT Austin Executive Education Center during the Project's first two years of operation, to minimize the financial risk during the startup years. This offer represents an assumed increase in occupancy of two percentage points in each of the first two years. It is anticipated that ongoing Compass demand will occur after the first two years, a factor that was not considered in the earlier versions of the market study, since an operator had not been selected.

Demand Analysis

A major effort has been conducted on three separate occasions covering a period of five years, to research the opinions of the academic and professional meeting planner communities, beginning in 2000 and updated in 2001/2002 and late 2004/early 2005.

Recommended Conference Facilities
The University of Texas at Austin Residential Executive Education Center

	<u>Approximate Seats</u>	<u>Square Feet</u>	<u>Comments</u>
Multi-Function Space			
Main Ballroom	800	12,000	Divisible into six to eight sections
Junior Ballroom	350	5,000	Divisible into three to five sections
Specialized Conference Center Space			
Amphitheater	80	2,400	
Large Conference	150	3,500	Divisible into two sections
Medium Conference	1 @ 80	2,000	
Small Conference	2 @ 50	2,400	
Case Study Rooms	3 to 4 @ 40	4,800	
Board Room	35	1,300	Including anteroom
Breakout Rooms	<u>8 @ 15</u>	<u>2,800</u>	
Totals	20 core spaces	36,200	

Note: The final programming recommendations for the Conference Center are subject to revision based on information obtained during planned site visits by the UT Austin planning team to comparable university executive education centers; and input from the Red McCombs School of Business.

Considering the composite of all research methods used for this analysis, approximately 70 percent of the participants in the research effort indicated that their University organization or state agency, company or association would either possibly or definitely use a high-end executive conference center/hotel in the Austin area, with a majority of the respondents specifically indicating possible or likely use of the Project at its planned location on the campus of the University. This is a very high percentage response compared to similar surveys that we have conducted regularly over the past twenty years for new development university and commercial conference center projects.

The most significant competitive advantage that The UT Austin Executive Education Center will have in regard to the intended University affiliated user categories relates to its location on the campus of the University. The demand potential from the Campus has attractive aspects of being well balanced between weekday and weekend demand and from being supported by numerous major potential non-price sensitive demand sources. These include the Red McCombs School of Business, The College of Engineering, The College of Fine Arts, the School of Law, the Intercollegiate Athletics programs for men and women, and the highly attractive membership of the Texas Ex-Students Association, representing a major portion of the economic wealth of the State of Texas.

Based on the underlying premise that use of the Executive Education Center will be limited to direct University, and University related demand, along with State demand and other sources that have a direct tie to the mission of the University, we have concluded that this market will support a 250-room upscale, meetings-oriented hotel in a very favorable manner.

Recommended Facilities

The recommended facilities of the project include a 250-room upscale lodging facility and conference center with approximately 30,000 to 35,000 net square feet of meeting space that meets the design criteria of the International Association of Conference Centers. Given the upside potential for substantial increases in demand over the first five operating years of the Project, it has been recommended that the design process allow for the expansion of the hotel portion of the Project at some future date.

The table on the facing page provides a summary of recommended facilities.

Estimated Performance

Based on the recommended facilities and market dynamics, the following tables summarize the estimated operating performance of The UT Austin Executive Education Center during its first five years of operation, assumed to commence in 2008:

UT Austin Executive Education Center Performance Estimates			
Year	Occupancy	Average Room Rate ^[1]	RevPAR ^[1, 2]
2008	58.5%	\$158.25	\$92.58
2009	68.5%	\$172.00	\$117.82
2010	72.0%	\$184.75	\$133.02
2011	73.0%	\$191.25	\$139.61
2012	73.0%	\$197.00	\$143.81

Notes:

1. Expressed in inflated dollars.
2. Revenue per available room.

UT Austin Executive Education Center Performance Estimates						
Year	Occupancy	Occupied Rooms ^[1]	Market Mix			
			Group / Conferee	Transient Leisure	Transient Commercial	Total
1	58.5%	53,400	63.0%	32.0%	5.0%	100.0%
2	68.5%	62,500	62.0%	33.5%	4.5%	100.0%
3	72.0%	65,700	62.0%	33.5%	4.5%	100.0%
4	73.0%	66,600	62.1%	33.5%	4.4%	100.0%
5	73.0%	66,600	62.1%	33.5%	4.4%	100.0%

Note 1. Rounded to nearest 100.

Stabilized occupancy levels typically occur by the third or fourth year of operations at conference centers, including those on university campuses. Occupancies in the high 60 percent range at on-campus facilities are generally considered to be strong, with occupancy levels above 70 percent considered to be very strong.

The following table provides a summary of estimated revenues and cash flow from operations:

<p align="center">The University of Texas at Austin Executive Education Center</p> <p align="center">Estimated Total Revenues and Cash Flows from Operations after Debt Service ^[1] (expressed in thousands of inflated dollars)</p>		
Years ending August 31,	Total Revenue	Cash Flow ^[1]
2009 [Year 1]	\$19,278	\$ 201
2010 [Year 2]	\$23,852	\$1,162
2011 [Year 3]	\$26,612	\$2,255
2012 [Year 4]	\$28,064	\$2,767
2013 [Year 5]	\$28,906	\$2,997

Notes:

1. Cash flow available after debt service, including Compass/FLIK investment and reimbursements.
2. The comments provided throughout this report and the assumptions listed on Pages 2 and 3 are an integral part of these estimated results.

DEMAND SUMMARY

This section of the report provides a summary of changes in anticipated demand conditions compared to the report prepared in 2002.

The hotel market analysis was initially prepared to determine the appropriate scope of the Project if developed as an up-scale commercial hotel with standard hotel meeting space. Subsequently, the demand analysis related to the specialized meeting facilities of a bona fide conference center was overlaid on the conclusions of the interim hotel scenario analysis. More recently, the operating concept of restricted access to University related/mission-related and State of Texas affiliated demand was added into the analysis equation.

Translating the results of our project-specific interviews and surveys to the potential universe of non-price-sensitive University related meetings indicates a potentially very large demand base from which the Executive Education Center will be able to draw. For demand that is University related but not directly from the University or the State of Texas, the determination of the guidelines for this category will ultimately determine the amount of this demand that can be accommodated at the Project. With this overall potential demand base, the success of The UT Austin Executive Education Center will be determined primarily by the quality of the experience that will be provided to the guests. This refers to the meeting facilities and all other aspects of the Project [guestrooms, food and beverage facilities, recreational facilities and other amenities], the service levels provided, and the success of the sales and marketing effort at the Executive Education Center.

Summary of Demand Research

University Market

Horwath Horizon's University-focused research included a third sequential and extensive evaluation of the overall campus opinion regarding the value of this Project both to the University and to individual organizations on the campus. This "value opinion" reflects both a campus-wide observation and the specific benefits to individual colleges and schools, on-campus institutes, academic/professional societies and administrative units. The basic process behind this evaluation included face-to-face interviews/meetings with deans, associate deans, faculty chairs, and other on-campus groups; an updated review of Austin area hotel contracts generated by the University; and a first-time effort to conduct a statistically useful electronic survey of the alumni of the University.

Compared to the on-campus research conducted in 1999/2000 and in 2002, there was a consistently more positive indication of anticipated demand levels in late 2004/early 2005 research effort, with a general indication of less price-sensitivity among many of the on-campus demand sources. The input of on-campus units reflected the impact of a combination of factors including:

- a visible increase in the national, regional and local economic trends [both now and in forecasts for the near to mid-term future];
- expectations of increased capability to both sponsor and participate in more academic conferences and symposia;
- greater anticipated demand from corporations recruiting the graduates of essentially all colleges and schools on the campus, due to the improved overall economy;
- greater amounts of demand for continuing/executive education in many disciplines, with the strongest levels of expected improvement coming from the largest anticipated demand generators [business, engineering and law];
- the significant potential impact of the implementation of a new organizational concept for the planning and funding of academic conferences oriented on the disciplines of internationally prominent professors within the University; and
- consistently strong or improved demand levels from the intercollegiate athletic programs of the UT Austin campus and state high school athletic competitions.

As was stated in our prior reports on this project, there is a significant percentage of overall potential conference and transient hotel demand from the University community that has a relatively high degree of price sensitivity. There are two core factors related to the impact of this issue that suggest an improved performance of the Project under current circumstances compared with two and four years ago.

One of these factors is that overall price sensitivity has decreased [modestly] in many on-campus organizations as the economy has improved, if for no other reason than the likely increased support from the corporate and donor communities. The second matter is a basic supply and demand economics fundamental. With increasing demand from the non-price-

sensitive segments of University related user organizations/individuals, the peak period demand seasons will be extended and the overall price points for these periods will increase. This pricing philosophy will be supported by the inevitable and obvious increase in pricing strategies in the downtown Austin hotel market, as market occupancies increase above the low 70 percent levels, which are predicted to occur as soon as 2005. A specific indication of this recovery in pricing philosophy is reflected in internet published "best available price" rates for mid-week, non-major convention periods in January of 2005 [an off-season month] where "best available rates" are in the range of \$185 to \$200 per room for hotels such as the Marriott at the Capitol and the Hilton Austin Convention Center Hotel.

In the case of the University of Texas at Austin, there are a significant number of on-campus demand sources that remain consistently interested in seeing a top-notch, upscale hotel and conference center facility being developed on the main campus. This closely follows the general "Texas Pride" / "We do everything at a very high quality level" philosophy that pervades the campus, and as has been clearly demonstrated throughout our investigation. It further reflects the visionary approach of senior administration at both UT Austin and the UT System that major capitol projects are intended to improve the mission oriented educational performance and to improve the national and international reputation of the University of Texas at Austin on the broadest scale of quality delivery.

Consistent with Horwath Horizon's prior on-campus research efforts, the most prominent potential user groups for an upscale hotel and conference facility include the following colleges and schools, which have clearly demonstrated substantial levels of demand for the facility, provided it is of sufficient quality in terms of physical structure, fit and finish and service levels:

- The Red McCombs School of Business
- The College of Engineering
- The School of Law
- The College of Fine Arts
- The College of Pharmacy
- The collective senior administrative offices of the University
- The University's Development Office
- Collective group demand from various entities within the UT System

Off-Campus Market

The evaluation of the off-campus demand segments was addressed in a different manner during this 2004 update. As a starting point of this approach, there has been a nationally visible trend in the corporate/executive conference center industry of consistently higher demand levels and lower price sensitivity from the corporate sector, beginning in the spring of 2004. Accordingly, the process of evaluating the off-campus market was more specifically focused on corporate organizations that have an official tie to the University. This was conservatively defined by a criterion of having a UT Austin alumni affiliation.

In this market study update, a sophisticated electronic survey was distributed to selected categories of alumni, organized in five-year groups based on the year of graduation. The survey was organized to address three specific segments of demand for different parts of the Executive Education Center as follows:

- leisure travel [with a wide range of sub-categories including attendance at performing arts, athletic and other social events, parents visiting students, etc.],
- non-group meeting business travel to Austin where hotel accommodations and dining would be needed; and
- corporate and professional society meetings.

The results of the survey were much more positive than would have been logically predicted in advance. The initial analysis of the data from the returned surveys was intended to build a profile of the respondents, which could then be applied to the entire alumni universe of UT Austin. During the analysis process, it became obvious that as we added increased levels of conservatism to the analysis process, it still resulted in substantial levels of documented demand.

In the end, each of the three types of alumni-related demand [leisure, business travel and business meetings] was evaluated based only on those alumni who responded with a fully completed survey. These responses were subsequently further narrowed to only those respondents who indicated a relatively limited concern or no concern related to pricing at the typical four-star/four diamond level of the hotel industry in Austin.

The Alumni survey conclusions represent only one of the three major categories of potential users, the other two being on-campus University generated demand and corporate group business from companies that have official ties to the University but are not driven by alumni within those corporations. Other UT System demand and State of Texas demand were not included in the Alumni survey conclusions.

Summary

The various efforts undertaken to assess the current situation regarding the primary sources of demand for the UT Austin Executive Education Center have resulted in what Horwath Horizon believes to be a very conservative and achievable consolidated projection of the performance of the Project during its first five years of operation, beginning in August of 2008. These results take into account the universal revenue management philosophy among successful professional hotel owners and operators, which balances demand levels and pricing structures to maximize overall performance of a property.

The Horwath analysis provides what we believe to be a reasonable balance between the sometimes conflicting objectives of providing accessibility to all on-campus organizations, including those who are price sensitive, by schedule management; and the University's desire to maximize the financial performance of the Project.

RECOMMENDED FACILITIES

Based on the Horwath market analysis and expectations, we recommend the following program for the Conference Center space.

Hotel Rooms

The recommended guestroom component of the proposed residential executive education center is 250 rooms and suites. For purposes of the utilization and financial analysis, this guest room component is assumed to have the following breakdown, subject to modification during the design planning process:

<u>Room Type</u>	<u>Number of Rooms</u>
Double Queen	125
King	100
Standard Suite	20
Hospitality Suite	4
Executive Suite	<u>1</u>
	<u>250</u>

An additional consideration that should be taken into account in the final design and financial planning stages is the need, as expressed by the various markets, for different price/quality types of accommodations. Thus, it may be possible to provide two or three separate, but not extensively different levels of “fit and finish” in the guestroom section. This can be done by segregating room blocks into a more moderately priced wing or set of lower floors, a standard level of upscale accommodation (the majority of the rooms) and an executive or concierge level of accommodation, such as is frequently found in upscale commercial hotels. The final conclusion of

this topic will depend on the input of the operator of the property and the University, based on their collective input regarding the financial and operational considerations of such a decision.

The inclusion of a plan for future expansion of the hotel component resulting from strong performance of the property should also be built into the overall design plan.

Signature Meeting Facilities

One of the most compelling arguments for the Project is the anticipated nature of the conference center facilities. The overall sophistication, design, technology and orientation of the recommended meeting facilities will clearly distinguish this project from any other downtown Austin hotel. These unique, high-tech meeting spaces, in combination with the distinctly different operating approach of a bona fide conference center in an on-campus location will unquestionably attract a substantial amount of demand that would not otherwise come to the City of Austin.

The Center will accommodate a wide variety of conferences, seminars, symposia, etc. With the Red McCombs School of Business Administration, the College of Engineering and the School of Law expected to be the primary non-price-sensitive demand generators, the provision of specialized meeting facilities that meet the criteria of these organizations will enhance the attractiveness of the Center. The following is a description of these specialized facilities.

Conference Amphitheater

An amphitheater meeting room with a seating capacity of approximately 80 to 100 persons is recommended. This will likely become the signature space of the Conference Center from a marketing and image perspective. Provisions in this room should include the latest in sound and video technology, front and rear-screen projection capability, permanently installed desks with moveable ergonomic conference chairs, individual lighting at each desk position and a permanently installed audience-response system.

Case Study Rooms

A component of approximately three to four case study rooms is also recommended. The typical room under this category would be a three-tiered semi-circular layout with seating and ample desk space for approximately 40 to 50 participants. This design programming recommendation should be coordinated with the specific needs of the executive education programs of the Red McCombs School of Business.

Other Meeting Facilities

Multi-Function Space

We recommend a main ballroom of approximately 12,000 square feet in order to accommodate banquets of up to 700 to 800 persons and general sessions of approximately 500 to 600 persons, depending on the type of seating used. The main ballroom should be divisible into six to eight smaller rooms by high-quality sound efficient movable walls. The recommended junior ballroom, at 4,000 to 5,000 square feet, divisible into three sections, will provide an appropriate complement to the main ballroom. This will allow for significant symposia/exhibitions in either of these two spaces, depending on the requirements of the larger individual groups, while still providing adequate flexibility to accommodate multiple mid-sized groups in these spaces.

Single Purpose Meeting Space

We recommend that the remaining conference center space, including the recommended amphitheater and case study rooms, be designed as single-purpose meeting space that meets the criteria of the International Association of Conference Centers. The recommended space is outlined in the following table.

Recommended Dedicated, Single-Purpose Conference Facilities
The University of Texas at Austin Executive Education Center

	<u>Approximate Seats</u>	<u>Square Feet</u>	<u>Comments</u>
Amphitheater	80	2,400	
Large Conference	150	3,500	Divisible into 2
Medium Conference	1 @ 80	2,000	
Small Conference	2 @ 50	2,400	
Case Study Rooms	3 to 4 @ 40	4,800	
Board Room	35	1,300	Including anteroom
Breakout Rooms	<u>8 @ 15</u>	<u>2,800</u>	
Totals	19 core spaces	19,200	

The final design programming of the Executive Education Center is subject to appropriate modification as a result of a well-planned design programming effort, including specific input from major user organizations on campus and a specific intent to conduct site visits to a selected group of the most current/up-to-date on-campus university conference centers around the country. Sophisticated communications technology should be provided in all meeting rooms, with at least one of the larger conference rooms equipped to provide teleconferencing capability and all meeting space having wireless internet capability.

The main ballroom of approximately 12,000 square feet and a junior ballroom of approximately 5,000 square feet would combine with the above specialized conference space to provide a total of approximately 36,000 square feet of meeting and function space within the Conference Center. The configuration of this space offers a high level of flexibility, providing the operator with space that will adapt to multiple groups ranging from as few as 15 to 20 persons to as many as 700 to 800 persons.

Recommended food and beverage facilities include a 250-seat conference dining room, and a 125-seat recreation lounge/pub/grill room. The acquisition of an alcoholic beverage license for the complex has been assumed.

Horwath also recommends the inclusion of an outdoor pool, an extensive fitness center, locker rooms with saunas and steam rooms, and a small spa. With the anticipated inclusion of the Campus Club [faculty club] within the Project, the core use of these facilities will be supplemented by incremental demand from the Campus Club's members.

ESTIMATED PERFORMANCE

From the foregoing analysis, it is obvious that a 250-room upscale lodging facility on the subject site, with AAA Four Diamond level service, can be supported. Factors considered in developing this conclusion are as follows:

- The subject was assumed to be a typical, first-class, full-service hotel. Furthermore, it is assumed that the property would offer a quality level commensurate with a typical nationally branded full-service hotel.
- The property's location would allow it to become the property of choice for demand generated by UT Austin and other UT System/State of Texas demand. Conversely, its site location north of the Central Business District [CBD] would render the property less attractive than the downtown hotels in accommodating true downtown demand.
- The property's easy accessibility from IH-35 would allow it to attract demand from other points in Austin.
- While most of the downtown hotels are in good condition, all of the hotels except the Austin Hilton, and the under-construction Courtyard by Marriott and Residence Inn by Marriott are at least 12 years old, with the newest of the other hotels being the Omni Austin Hotel Downtown. This provides a newly constructed property, such as the subject, with a competitive advantage.

- The Project's distance from the Austin Convention Center would likely prohibit it from accommodating a significant amount of demand generated by the Convention Center, except during city-wide events.

Considering the competitive strengths and weaknesses noted above, a full-service hotel would compete effectively with the identified Austin hotel supply under an unrestricted-use model. However, the establishment of a set of operating guidelines that restricts access to the Project to University related demand and State of Texas affiliated demand will minimize the Project's competitive status with the existing downtown Austin upscale hotel market.

EXHIBITS

PROPOSED 250-ROOM UT AUSTIN RESIDENTIAL EXECUTIVE EDUCATION CENTER
THE UNIVERSITY OF TEXAS
AUSTIN, TEXAS

EXHIBIT A

ESTIMATED STATEMENTS OF CASH FLOW FROM OPERATIONS
(Expressed in thousands of inflated dollars)

	Year 1		Year 2		Year 3		Year 4		Year 5	
	\$	%	\$	%	\$	%	\$	%	\$	%
Occupancy ^[1]		58.5%		68.5%		72.0%		73.0%		73.0%
Average Room Rate (2004 \$; rd, \$0.25)	\$140.50		\$148.25		\$154.75		\$155.50		\$155.50	
Average Room Rate (inflated \$; rd, \$0.25)	\$158.25		\$172.00		\$184.75		\$191.25		\$197.00	
ADR ^[2] (inflated \$; rd, \$0.25)	\$174.00		\$189.00		\$203.25		\$210.25		\$216.50	
Revenues										
Rooms	\$9,288	48.2%	\$11,814	49.5%	\$13,351	50.2%	\$14,012	49.9%	\$14,433	49.9%
Food	\$5,502	28.5%	\$6,612	27.7%	\$7,303	27.4%	\$7,723	27.5%	\$7,954	27.5%
Beverage	\$889	4.6%	\$1,043	4.4%	\$1,132	4.3%	\$1,213	4.3%	\$1,250	4.3%
Conference Services	\$2,479	12.9%	\$2,997	12.6%	\$3,299	12.4%	\$3,496	12.5%	\$3,600	12.5%
Telephone	\$149	0.8%	\$186	0.8%	\$203	0.8%	\$214	0.8%	\$220	0.8%
Minor Operated Departments	\$397	2.1%	\$485	2.0%	\$524	2.0%	\$556	2.0%	\$572	2.0%
Other	<u>\$574</u>	<u>3.0%</u>	<u>\$718</u>	<u>3.0%</u>	<u>\$801</u>	<u>3.0%</u>	<u>\$852</u>	<u>3.0%</u>	<u>\$877</u>	<u>3.0%</u>
Total	\$19,278	100.0%	\$23,852	100.0%	\$26,612	100.0%	\$28,064	100.0%	\$28,906	100.0%
Department Expenses										
Rooms	\$2,424	26.1%	\$2,454	20.8%	\$2,712	20.3%	\$2,837	20.2%	\$2,922	20.2%
Food & Beverage	\$5,517	86.3%	\$6,252	81.7%	\$6,423	76.1%	\$6,778	75.8%	\$6,981	75.8%
Conference	\$1,469	59.3%	\$1,633	54.5%	\$1,682	51.0%	\$1,769	50.6%	\$1,822	50.6%
Telephone	\$149	100.0%	\$180	97.0%	\$191	94.1%	\$201	93.9%	\$207	93.9%
Minor Operated Departments	\$193	48.5%	\$235	48.5%	\$254	48.4%	\$269	48.4%	\$277	48.4%
Other	<u>\$85</u>	<u>14.8%</u>	<u>\$103</u>	<u>14.4%</u>	<u>\$112</u>	<u>14.0%</u>	<u>\$119</u>	<u>14.0%</u>	<u>\$123</u>	<u>14.0%</u>
Total	\$9,837	51.0%	\$10,856	45.5%	\$11,373	42.7%	\$11,972	42.7%	\$12,331	42.7%
Department Profit	\$9,441	49.0%	\$12,996	54.5%	\$15,240	57.3%	\$16,093	57.3%	\$16,575	57.3%
Undistributed Operating Expenses										
Administrative & General	\$1,884	9.8%	\$2,044	8.6%	\$2,146	8.1%	\$2,223	7.9%	\$2,290	7.9%
Base Management Fee	\$447	2.3%	\$700	2.9%	\$797	3.0%	\$841	3.0%	\$866	3.0%
Sales & Marketing	\$1,646	8.5%	\$1,740	7.3%	\$1,799	6.8%	\$1,853	6.6%	\$1,909	6.6%
Energy	\$595	3.1%	\$620	2.6%	\$657	2.5%	\$678	2.4%	\$698	2.4%
Property Operations & Maintenance	<u>\$938</u>	<u>4.9%</u>	<u>\$1,069</u>	<u>4.5%</u>	<u>\$1,134</u>	<u>4.3%</u>	<u>\$1,194</u>	<u>4.3%</u>	<u>\$1,229</u>	<u>4.3%</u>
Total	\$5,510	28.6%	\$6,172	25.9%	\$6,532	24.5%	\$6,788	24.2%	\$6,992	24.2%
Cash Flow before Fixed Charges, Replacement Reserve and Debt Service	\$3,932	20.4%	\$6,824	28.6%	\$8,708	32.7%	\$9,305	33.2%	\$9,584	33.2%
Fixed Charges, Replacement Reserve and Debt Service										
Insurance	\$91	0.5%	\$93	0.4%	\$96	0.4%	\$99	0.4%	\$101	0.4%
Management Fee - Incentive	\$63	0.3%	\$98	0.4%	\$109	0.4%	\$118	0.4%	\$122	0.4%
Replacement Reserve	\$0	0.0%	\$835	3.5%	\$1,331	5.0%	\$1,403	5.0%	\$1,445	5.0%
Debt Service	<u>\$4,577</u>	<u>23.7%</u>	<u>\$4,577</u>	<u>19.2%</u>	<u>\$4,577</u>	<u>17.2%</u>	<u>\$4,577</u>	<u>16.3%</u>	<u>\$4,577</u>	<u>15.8%</u>
Total Fixed Charges	\$4,731	24.5%	\$5,603	23.5%	\$6,112	23.0%	\$6,197	22.1%	\$6,245	21.6%
Cash Flow after Debt Service	<u>-\$799</u>	<u>-4.1%</u>	<u>\$1,221</u>	<u>5.1%</u>	<u>\$2,596</u>	<u>9.8%</u>	<u>\$3,108</u>	<u>11.1%</u>	<u>\$3,338</u>	<u>11.5%</u>
Compass/Flik Investments ^[3]	\$1,000	5.2%	-\$59	-0.2%	-\$341	-1.3%	-\$341	-1.2%	-\$341	-1.2%
Net Cash Flow after Debt Service	<u>\$201</u>	<u>1.0%</u>	<u>\$1,162</u>	<u>4.9%</u>	<u>\$2,255</u>	<u>8.5%</u>	<u>\$2,767</u>	<u>9.9%</u>	<u>\$2,997</u>	<u>10.4%</u>

Notes: 1. Includes 2 incremental points of occupancy [conference segment] from Compass-USA corporate for Operating Years 1 and 2.
2. Average Daily Rate includes incremental revenue from the standard service charge [15%] that is applied to all Complete Meeting Package [CMP] revenue.
3. Non-reimbursable signing bonus conservatively assumed to be received in full in Operating Year 1; All other investments are capital investments, which are not included in the pro forma income statements. Amortizations of reimbursable capital investments are included as operating expenses, beginning in Operating Year 2, thereby appearing as expense items.
Department expenses and profits are stated as percentages of related department revenues; all other items are stated as percentages of total revenues.
The comments and assumptions contained in this report are an integral part of these estimated statements.

APPENDICES

THE CONFERENCE CENTER CONCEPT

The purpose of this text is to describe the underlying concept of conference centers to permit a more thorough understanding of the objectives of, and the recommended facilities for, the proposed UT Austin Hotel & Conference Center.

General Concept

By definition and design, a conference center is a specialized hospitality operation dedicated to facilitating and supporting conferences (small to medium-sized meetings, usually averaging between 20 to 50 persons and generally less than 250 persons). In many cases, in particular for conference centers affiliated with institutions of higher learning, there is a significant market for symposia, institutes and other academic conferences that may range in size from under 100 to more than 300 participants.

The entire focus of the operation of a conference center is geared toward enhancing the success of the meeting, from the design of the facility, to the professional support services, to the specialized training of the staff, to the packaging of the product. By focusing on providing the best possible environment for productive meetings, conference centers are "specialist" properties. Hotels, by comparison, are "generalist" properties, as the accommodation of meetings by these operations is treated as only one of a number of facets of their business.

Conference centers are a natural outgrowth of the age of specialization. Meetings have long been an integral part of the efforts of organizations to maintain internal and external communications. However, the need to bring individuals together to communicate face to face in the "conference" format has increased dramatically in the past two decades as organizations have grown in complexity and as the speed at which change and technological progress has increased. Along with this, the pressures on corporations and other organizations to maximize the productivity of their meetings has increased tremendously, and the expectation levels of those who plan meetings, as well as those attending them, has risen substantially.

In the past, this conference demand has been serviced by a number of different types of facilities, including hotels, resorts, motor inns, country clubs, and restaurants. While each of these categories of meeting facilities offers advantages for certain types of meetings, meeting customers have found that the characteristics of these types of facilities can often work against meeting efficiency. Distractions abound at many of these facilities, including external noise and congestion, interruption of important sessions, and the confusion of numerous people at the same facility for different purposes. Poorly designed guestrooms and meeting rooms, insufficient number of meeting and breakout rooms, inadequate lighting, uncomfortable furniture, a lack of modern meeting aids, and the lack of trained personnel, all add to the meeting inefficiencies and inadequacies at many of these "generalist" facilities. It is for this reason that the conference center industry has emerged as a distinct and dynamic segment of the meetings hospitality industry.

Many organizations have recognized the disadvantages involved with hotel-type locations for specific meeting formats. Those organizations with a sufficient number of meetings have tried the inclusion of conference rooms in corporate headquarters. Such in-house meeting facilities are convenient and typically comfortable. However, subtle considerations often make the corporate conference room less desirable than anticipated. For example, the frequent intrusions of "important" telephone calls and minor "office crises" work against the benefit of a controlled environment conducive to learning. External distractions that occur when the conferee leaves the

meeting room or goes home for the evening also detract from information retention and meeting efficiency. The learning environment is thereby fractured and any momentum developed during the session can be easily lost. The receptive attitude of the conferee must then be re-established, a task that is often accomplished only after a considerable loss of valuable time.

It was the demand for more appropriate facilities that resulted in the development of the conference center concept. Conference centers avoid the problems that accompany multi-market oriented hospitality facilities and in-house corporate meeting rooms by concentrating on a special market - the off-premise meetings market for small to medium-sized groups of typically less than 250 persons.

The primary purpose of true conference centers is to satisfy and accommodate conference groups by offering self-contained, full-service, learning and living environments. Due to the specific requirements of the conference market, conference centers are able to provide specially designed meeting, lodging, dining and recreational facilities with appropriate atmosphere, accommodations and services.

The basic indicator that separates the true conference centers from the pretenders is the focus on the small to medium-sized group meeting market. Generally, as much as 60 percent of total demand comes from these markets at bona fide conference centers.

In summary, the conference center concept is one of a total meeting environment, integrally designed and controlled by a team of professionals with the highest level of expertise in meeting planning and management. It is by adopting this approach to the meetings market that conference centers have established a dynamic presence in the meetings industry.

COMPARABLE LOCAL HOTEL MARKET

The proposed property will accommodate group meeting, academic seminar/symposia and independent traveler demand from University related sources that are currently hosted by other dedicated conference centers throughout Texas, as well as meetings-oriented and other upscale hotels in Austin. In addressing the evolving status of the downtown upscale hotel market, the basic driving factors over the past four years have been the substantial increase in supply as a result of the opening of the new Austin Convention Center headquarters hotel [The Hilton Austin] and the challenging period for the hotel industry since late 2000 resulting from a negative economic trends and the impact of the terrorist events of September 11, 2001. With these issues being carefully considered, it is obvious that the downtown Austin upscale full-service hotel market has begun a noticeable turnaround.

The Austin Hilton is certain to generate substantial amounts of new supply-induced demand from the Convention market. With the addition in 2005/2006 of two new Marriott hotel products [Courtyard by Marriott and Residence Inn] in the downtown area that are considered to be at worst secondary competitors to the upscale full-service supply, and the likely two to three-year period before the 800-room Austin Hilton has been fully absorbed into the market, it is our opinion that the UT Austin Executive Education Center is likely to be the only comparable quality new supply addition in the next three to five years. Based on historical trends and reasonable projections of hotel demand growth under the assumption of a reasonably strong economic cycle over the next six to ten years, the anticipated overall demand in the downtown Austin market would indicate the likely development of another [unidentified] new upscale, full-service hotel in the next three years, if the UT Austin project was not developed.

Accordingly, the overall performance of the downtown Austin hotel market is expected to improve significantly. This improved performance from an occupancy standpoint will undoubtedly drive prices up within this segment of the hotel industry, compared to the relatively negative pricing trends over the period from 2000 to 2004.

While the Project may have a short-term impact on some or all of the downtown hotels that currently accommodate University related sources of demand, these properties will retain a composite competitive advantage of their own in that they have no restrictions on their sources of business. This applies to commercial demand, corporate training and executive level meetings and leisure travel that have no direct tie with the University, as well as a large majority of state and regional associations and professional societies. With the long-term strength of the Austin economy expected to be sustained, any impact on these properties due to the loss of University related demand sources for the subject hotel and conference center are likely to be short-term in nature.

Downtown Austin Upscale Hotel Market Summary			
Segmentation of Upscale Full-Service Hotel Market by Rate Structure Tiers			
<p>Note: Segmentation is based on Trend Report criteria of Smith Travel Research, which limits the maximum percentage of any one hotel brand to 33 percent. Accordingly the mid-tier pricing segment was expanded to include hotels also included in the upper and lower price tiers, due to the size of the Hilton Austin Convention Center Hotel.</p>			
Upper Tier	Middle Tier		Lower Tier
Four Seasons Austin Driskell Hotel Omni Austin Hotel Downtown Doubletree Suites Austin Hyatt Regency Austin	Crowne Plaza Austin Doubletree Suites Austin Embassy Suites Austin Downtown Hilton Austin Convention Center Inter-Continental Stephan F. Austin Marriott Austin @ the Capitol Radisson Hotel and Suites Austin	Crowne Plaza Austin Doubletree Club Hotel Embassy Suites Austin Downtown Hawthorne Suites Radisson Hotel & Suites Austin	
Occupancy			
Year	Upper Tier	Middle Tier	Lower Tier
1999	71.2%	74.3%	68.8%
2000	79.0%	76.4%	75.1%
2001	65.4%	64.9%	62.8%
2002	67.6%	67.2%	63.9%
2003	72.5%	67.2%	64.7%
2004	70.2%	66.9%	63.5%
Feb YTD 2004	65.5%	60.9%	53.8%
Feb YTD 2005	74.1%	71.4%	68.4%
Average Room Rate			
Year	Upper Tier	Middle Tier	Lower Tier
1999	\$148.76	\$121.30	\$111.39
2000	\$155.95	\$130.17	\$117.79
2001	\$155.77	\$126.34	\$113.65
2002	\$145.10	\$114.62	\$102.23
2003	\$143.12	\$115.89	\$99.13
2004	\$143.36	\$115.51	\$94.69
Feb YTD 2004	\$140.34	\$113.75	\$95.65
Feb YTD 2005	\$148.69	\$129.80	\$104.41
Source: Smith Travel Research.			

Internet Rack Rates Search Using Hotels' Websites			
Austin, Texas Upscale/Luxury Hotels			
Periods	Weeks of Feb 21, 28; Mar 21, 28; Apr 4, 11, 18, 25; May 16; Jun 13; Jul 18; Aug 15; Sep 12; Oct 17; Nov 14; Dec 12		
Rankings based on Standard Room Rates	Hotel	Averages coming W/D and W/E	
		Standard Room	Suite
	Four Seasons	\$331	\$435
	Driskill	\$235	\$364
	Omni Austin Downtown	\$207	\$296
	Marriott @ the Capitol	\$175	-
	Hilton Austin Convention Center	\$173	\$187
	Mansion at Judges Hill	\$169	\$299
	Hyatt Regency	\$160	\$201
	Doubletree Suites	\$156	\$215
	Crowne Plaza	\$126	\$247
	Market Average [unweighted]	\$192	\$281

Research Guidelines: For February and March the searches were conducted approximately 7 to 10 days in advance. For April through December, the searches were conducted further out. Each individual hotel's results included two-day stays for both weekday and weekend.

OTHER FACTORS IN THE ANALYSIS

Authorized Non-University Related Use

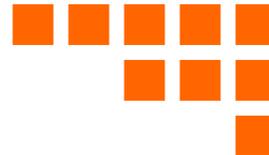
Considering the option that allows for more non-University related demand [up to 10%] will provide the Operator with justification for a more aggressive revenue management strategy in terms of controlling this additional demand by more aggressive pricing. If total revenue [between any two pricing options] is the same, it is almost always better to have lower occupancy and higher rates due to lower operating costs, as long as the total revenue generation is the same. Thus, Horwath opted to use the more aggressive pricing strategy [for this specific demand segment] to back up the overall projected rate outcomes, and thereby reducing the net occupancy from this demand segment to approximately three percent of total demand.



The University of Texas Professional Education and Conference Center

The University of Texas at Austin

Facility Need



- Mission-related professional education center
- Expanding role for leading public universities is to provide post-graduate professional education in many disciplines
- Serves the entire campus, including the Red McCombs School of Business
- Educational outreach to business community and corporate clients



Facility Overview

- Conference center
- 250-300 guest rooms
- 30,000 to 35,000 net square feet of meeting space
- Associated parking garage



Management Firm Selection Process

- Solicitation for Request for Proposals
- Seven national caliber companies responded
- Interviews of four companies conducted
- Financial analysis of proposals



Financial Profile

- Updated feasibility study presents encouraging financial environment for project
- Excellent financial projections from the consultant and the proposed management firm
- Project is projected to be self-sustaining and will not drain resources from other mission-related activities
- Allows the university to expand its role in its post-graduate educational mission
- Will provide discretionary income for other mission-related activities



Major Points of Contract

- Initial 10-year term
- Based on a fixed management fee
- Financial commitment by Compass Group



The Facility Will Offer

- A first-rate, academic-oriented experience which fosters learning and teamwork
- A collegial environment which allows interaction among peers and between faculty and students
- An environment which builds and strengthens the sense of university community
- A gateway to the U. T. Austin campus and bridge to the business community

4. **U. T. El Paso: Authorization to purchase the unimproved real property located at 1614 Hawthorne Street, El Paso, El Paso County, Texas, at fair market value as established by an independent appraisal, to construct a parking lot**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Natalicio that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. El Paso, to

- a. purchase the real property and improvements located at 1614 Hawthorne Street, El Paso, El Paso County, Texas, at fair market value as established by an independent appraisal, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate; and
- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments and other agreements, and take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

The subject property consists of approximately 6,344 square feet of vacant land with retaining walls located across the street from a U. T. El Paso parking lot and near the Office of University Relations and the Center for Inter-American and Border Studies. Additionally, the land includes frontage along Hawthorne Street and Schuster Drive near the recently constructed Academic Services Building.

Due to the landlocked status of the U. T. El Paso campus and the resulting need to acquire additional property near campus for parking to accommodate increasing numbers of visitors to existing and future campus facilities, the subject property was identified for potential land acquisition in the Campus Master Plan completed in 2002 by the firm of Ellerbe Becket of Minneapolis, Minnesota. After acquisition, the site will be paved for a parking lot. U. T. El Paso will use local reserves to fund the purchase, estimated at \$47,500, the terms and conditions of which are reflected in the transaction summary on Page 52.

Transaction Summary

Institution:	U. T. El Paso
Type of Transaction:	Purchase
Total Area:	6,344 square feet
Improvements:	Retaining walls
Location:	1614 Hawthorne Street, El Paso, Texas; see map on Page 52.1
Seller:	Sergio and Kathy Coronado
Purchase Price:	\$47,500
Appraised Value:	\$50,000 (Mars Appraisal Associates, April 14, 2005)
Source of Funds:	Local reserves
Intended Use:	Parking lot

5. **U. T. Pan American: Authorization to purchase the unimproved land located along the north side of West University Drive, west of Sugar Road and adjacent to the southwest corner of the campus Physical Plant, in Edinburg, Texas, described as the east approximately 16.42 acres west of Canal out of Lot 5, Section 273, Texas-Mexican Railway Company Subdivision, City of Edinburg, Hidalgo County, Texas, at fair market value as established by independent appraisals, for expansion of the campus to accommodate future academic facilities and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Cárdenas, that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Pan American, to

- a. purchase the unimproved land located along the north side of West University Drive, west of Sugar Road and adjacent to the southwest corner of the campus Physical Plant, in Edinburg, Texas, described as the east approximately 16.42 acres west of Canal out of Lot 5, Section 273, Texas-Mexican Railway Company Subdivision, City of Edinburg, Hidalgo County, Texas, at fair market value as established by independent appraisals, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate;
- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;
- U. T. Pan American, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$2.7 million; and
- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

The subject property consists of 16.42 acres of unimproved land located on West University Drive, adjacent to the southwestern corner of the U. T. Pan American Physical Plant and contiguous to other property that the institution is acquiring for University use. The property was identified as a critical acquisition in the Campus Master Plan completed by the firm of Good, Fulton & Farrell of Dallas, Texas, in January 2005. The site includes 510 feet of frontage along University Drive, the main traffic artery to campus. This frontage will provide access and visibility from University Drive to all of the campus west of Sugar Road. U. T. Pan American plans to use the site to accommodate future academic facilities.

U. T. System Revenue Financing System debt will be used to fund the purchase estimated at \$2.5 million, the terms and conditions of which are as reflected in the transaction summary below:

Transaction Summary

Institution:	U. T. Pan American
Type of Transaction:	Purchase
Total Area:	16.42 acres of unimproved land
Improvements:	None
Location:	North side of West University Drive, adjacent to the southwest corner of the U. T. Pan American Physical Plant; see map on Page 55.1

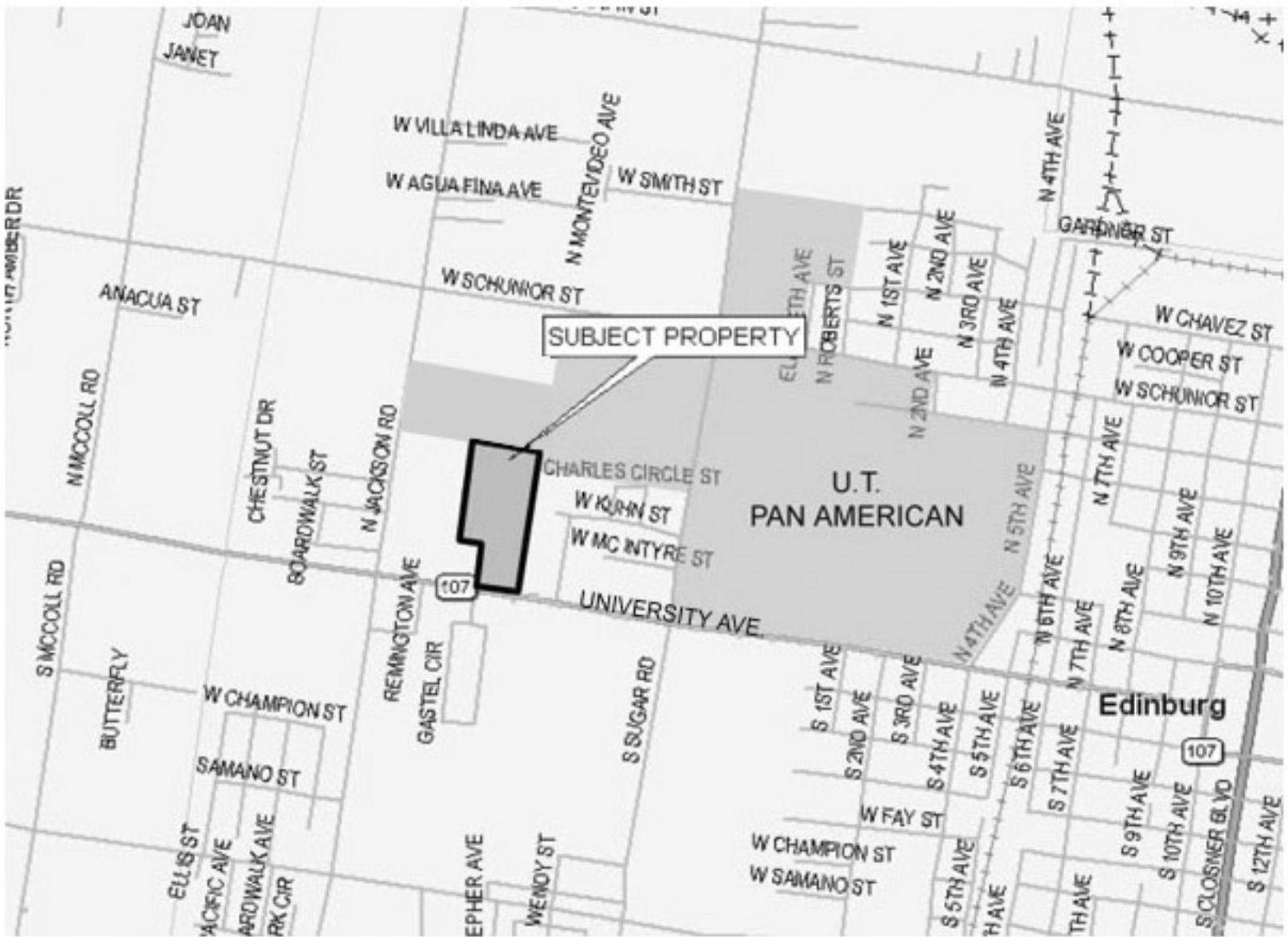
Seller: Leslie Southwick, Larry Southwick, Lloyd Southwick, and Linda Johnson

Purchase Price: \$2.5 million

Appraised Value: \$2.5 million (Joe W. Patterson, MAI, January 18, 2005)
\$2.5 million (Professional Appraisal Services, Inc., May 10, 2005)

Source of Funds: Revenue Financing System debt

Intended Use: This expansion of the U. T. Pan American campus is planned to accommodate future academic facilities.



6. **U. T. Pan American: Authorization to purchase the real property and improvements located at 521 North Jackson Road, Edinburg, Hidalgo County, Texas, at fair market value as established by independent appraisals, for future campus expansion and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Cárdenas that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Pan American, to

- a. purchase the real property and improvements located at 521 North Jackson Road, Edinburg, Hidalgo County, Texas, at fair market value as established by independent appraisals, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate;
- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;

- U. T. Pan American, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$500,000; and
- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

The subject property consists of approximately 9.7 acres of mostly undeveloped pasture land with a house and ancillary improvements located along the western border of the U. T. Pan American campus and across Jackson Road from property that the institution is acquiring for University use.

After acquisition, the house and ancillary improvements will be demolished and the site will be used for campus support functions and services. U. T. System Revenue Financing System debt will be used to fund the purchase, estimated at \$475,000, the terms and conditions of which are reflected in the transaction summary below:

Transaction Summary

Institution:	U. T. Pan American
Type of Transaction:	Purchase
Total Area:	9.7 acres
Improvements:	Single family house; shed
Location:	South 9.7 acres out of Lot 1, Section 276, Texas-Mexican Railway Company Survey, City of Edinburg, Hidalgo County, Texas; see map on Page 57.1
Seller:	Sherry Todd
Purchase Price:	\$475,000
Appraised Value:	\$475,000 (Joe W. Patterson, MAI, March 1, 2005) Second appraisal to be obtained
Source of Funds:	Revenue Financing System debt
Intended Use:	Campus ancillary and support functions

7. **U. T. Pan American: Request to name the Raúl Yzaguirre Policy Institute and approve the creation of an advisory council to be known as the Raúl Yzaguirre Policy Institute Advisory Council (Regents' Rules and Regulations Series 60302, regarding advisory councils)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and the President of The University of Texas - Pan American that the U. T. System Board of Regents approve the naming of the Raúl Yzaguirre Policy Institute and approve the creation of an Advisory Council to be known as the Raúl Yzaguirre Policy Institute Advisory Council to provide advice on fund raising and policy.

BACKGROUND INFORMATION

The United States Congress, through sponsorship by Representative Rubén Hinojosa, appropriated \$640,000 in the Fiscal Year 2005 Omnibus Appropriations bill as seed money for the creation of a world-class center for scholarly research in areas affecting Hispanics and to serve as a catalyst in the constructive formation of future Hispanic leaders. Operations of the center will be divided into two interrelated programs: Policy Research and Leadership Development. Sources of additional funds for operations, including research grants, are being identified. No designated tuition funds will be spent on center operations.

The Policy Research program will collect and disseminate information pertaining to the social, political, and economic forces affecting Hispanics in America. The Leadership Development program will work with existing and upcoming leaders to advance a greater understanding of the issues that have an impact on the Hispanic community. Emphasis will be in the public policy, public administration, and government areas. Hands-on training will be provided through internships and fellowships for undergraduates, graduates, and public officials.

U. T. Pan American proposes to name the center the Raúl Yzaguirre Policy Institute, consistent with Representative Hinojosa's sponsorship of the appropriation.

Mr. Yzaguirre served as president and CEO of the National Council of La Raza from 1974 to 2004. During his 30-year tenure with the Council, Mr. Yzaguirre turned his vision of pan-Hispanic unity among Latino subgroups into a reality and played a leading role in expanding the economic and political influence of Hispanics. Mr. Yzaguirre is a native of the Lower Rio Grande Valley of Texas.

Mr. Yzaguirre is currently the Presidential Professor of Practice in Community Development and Civil Rights at Arizona State University where he is helping to establish a center focused on community development and academic scholarship.

The naming of the Institute requires approval by the Board of Regents to comply with the Regents' *Rules and Regulations*, Series 80307, regarding honorific namings.

In addition, President Cárdenas proposes to establish an advisory council which also requires Board approval as required by Series 60302 of the Regents' *Rules and Regulations*. Membership in the advisory council will be subject to approval by the Chancellor as required by Series 60302.

8. **U. T. San Antonio: Request to create the College of Public Policy Advisory Council (Regents' *Rules and Regulations* Series 60302, regarding advisory councils)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Romo that the U. T. System Board of Regents approve the creation of an advisory council to be known as the College of Public Policy Advisory Council.

BACKGROUND INFORMATION

The College of Public Policy is currently comprised of the undergraduate criminal justice program and the graduate justice policy and public administration programs. The mission of the College of Public Policy is to serve as a bridge between the theory and knowledge of the global academic communities represented by the disciplines in the College and the practical needs of policy-makers and practitioners in a diverse community of citizens and organizations. The College fulfills this mission by engaging in research in the areas of public policy, teaching at both the undergraduate and graduate level, and service activities appropriate to units of the College.

The establishment of this Advisory Council requires Board approval to comply with the Regents' *Rules and Regulations*, Series 60302. Membership in the College of Public Policy Advisory Council will be subject to approval by the Chancellor. The Advisory Council will provide counsel to the deans and support to U. T. San Antonio's fund-raising development efforts.

9. **U. T. San Antonio: Request to create the College of Sciences Advisory Council (Regents' Rules and Regulations Series 60302, regarding advisory councils)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and the President of The University of Texas at San Antonio that the U. T. System Board of Regents approve the creation of an advisory council to be known as the College of Sciences Advisory Council.

BACKGROUND INFORMATION

The establishment of an advisory council requires Board approval to comply with Regents' *Rules and Regulations*, as required by Series 60302. Membership in the College of Sciences Advisory Council will be subject to approval by the Chancellor. The Advisory Council will provide counsel to the deans and support to U. T. San Antonio's fund raising development efforts.

The College of Sciences offers unparalleled opportunities to participate in cutting-edge research in information security, cell and molecular biology, neuroscience, and environmental remediation. Students often receive financial assistance to gain the hands-on research experience that should lead to profitable future academic and business careers.

10. **U. T. San Antonio: Authorization to establish a Ph.D. degree program in Anthropology**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Romo that authorization be granted to

- a. establish a Ph.D. degree program in Anthropology at U. T. San Antonio; and
- b. submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action.

In addition, the Coordinating Board will be asked to change the U. T. San Antonio Table of Programs to reflect authorization for the proposed degree program.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. San Antonio will be amended to reflect this action.

BACKGROUND INFORMATION

Program Description

U. T. San Antonio proposes to offer a Ph.D. in Anthropology degree program. This program will be offered by the Department of Anthropology in the College of Liberal and Fine Arts. The program is designed to prepare leading professionals in the field of ecological anthropology, which directs anthropological knowledge toward the resolution of real-world problems.

Students admitted to the program will take 90 semester credit hours of post-baccalaureate coursework. The program requires 54 semester credit hours of organized coursework beyond the Bachelor's degree distributed as follows: 18 semester credit hours of foundation courses in theory and research methods; 21 semester credit hours of designated electives in areas such as medical anthropology, primate behavioral ecology, and cultural anthropology; and 15 semester credit hours of support work, which may include courses outside the field of anthropology such as statistics or earth and environmental science. The program also requires 18 semester credit hours of supervised research and 18 semester credit hours of dissertation.

Need and Student Demand

Projections indicate an increased need for Ph.D.s in anthropology in both academic and non-academic positions. There is also a shortage of qualified individuals to take on leadership positions in a number of applied areas such as cultural resource management, museums, and state agencies, for which individuals with the proposed degree would qualify. The ecological focus of the proposed doctoral program would distinguish it from existing doctoral programs in anthropology that are currently offered in the state as well as nationally, and it will serve to attract students nationwide. Almost one-half of students who have graduated from U. T. San Antonio's Master's program in anthropology during the last decade have been admitted to doctoral programs, indicating a high level of interest in pursuing a doctoral degree in anthropology from students in the San Antonio area. Respondents to a survey assessing student interest also indicated an interest in pursuing the doctoral degree in anthropology at U. T. San Antonio.

Program Quality

Eleven members of the Department of Anthropology, as well as two anthropologists employed by U. T. San Antonio's Center of Archaeological Research and four anthropologists who are faculty members in departments other than the Department of Anthropology comprise the core faculty who will contribute to the delivery of the program. Four additional faculty members from U. T. San Antonio, two faculty members from the Southwest Foundation for Biomedical Research, one faculty member from U. T. Health Science Center - San Antonio, and one faculty member from Michigan State University will contribute to the program through membership on dissertation committees and teaching courses in their area of expertise. All contributing faculty members are active

publishing researchers who are capable of teaching courses and supervising student research in the proposed program. Two new faculty members have been hired in anticipation of the proposed program, and two additional faculty members will be hired before the program's implementation. It is estimated that four tenure-track faculty members will be hired during the first five years of the proposed program. All recently hired faculty and anticipated hires will contribute approximately 50% of their time to the delivery of the proposed Ph.D. program. These positions are included in the College of Liberal and Fine Arts' faculty hiring plan.

The Department of Anthropology recently transformed existing space into a seminar room/computer lab for students in support of creating a doctoral curriculum that emphasizes training in quantitative and qualitative methods and research design, which will foster a culture of grant writing among the program's students. This should provide ample space for graduate students who need computer access to work on projects as well as to provide students with methodological training. The program will require additional office space for the anticipated new faculty and graduate teaching assistants, as well as additional classroom space for the anticipated increase in course offerings. However, the opening of a new building on the 1604 Campus and one on the Downtown Campus should free space that could be used for the delivery of the program. The Department has sufficient information technology resources to support the program.

Program Cost

The cost of operating the program across five years is approximately \$989,369. This includes \$417,500 for faculty salaries, \$41,665 for program administration, \$489,104 for graduate student support, \$37,500 for support staff, and \$3,600 for supplies and materials. Revenues of \$809,692 from formula funding, and the reallocation of \$530,769 in existing university resources are expected to be sufficient to fully fund the program.

11. U. T. Brownsville: Discussion and appropriate action regarding proposed revisions to Mission Statement for U. T. Brownsville/Texas Southmost College Partnership

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Garcia that proposed changes to the U. T. Brownsville Mission Statement as set forth below be approved by the U. T. System Board of Regents and forwarded to the Texas Higher Education Coordinating Board for approval.

Revised Mission Statement

The mission of The University of Texas at Brownsville/Texas Southmost College (UTB/TSC) Partnership is to provide accessible, affordable, postsecondary education of high quality; to conduct research that expands knowledge; and to provide programs of workforce training and continuing education, public service, and cultural value. The partnership combines the strengths of the community college and those of a university by increasing student access and eliminating inter-institutional barriers while fulfilling the distinctive responsibilities of each type of institution.

The UTB/TSC Partnership offers certificates and associate, baccalaureate, master's, and doctoral degrees in liberal arts, the sciences, and professional programs designed to meet student demand as well as regional, national, and international needs.

The UTB/TSC Partnership places excellence in learning and teaching at the core of its commitments. It seeks to help students at all levels develop the skills of critical thinking, quantitative analysis, and effective communications which will sustain lifelong learning. It seeks to be a community university that respects the dignity of each learner and addresses the needs of the entire community.

The UTB/TSC Partnership advances economic and social development, enhances the quality of life, fosters respect for the environment, provides for personal enrichment, and expands knowledge through programs of research, service, continuing education, and training. It convenes the cultures of its community, fosters an appreciation of the unique heritage of the Lower Rio Grande Valley and encourages the development and application of bilingual abilities in students. It provides academic leadership to the intellectual, cultural, social, and economic life of the binational urban region it serves.

Current Mission Statement

The mission of The University of Texas at Brownsville and Texas Southmost College (UTB/TSC) Partnership is to provide accessible, affordable, postsecondary education of high quality, to conduct research which expands knowledge and to present programs of continuing education, public service, and cultural value to meet the needs of the community. The partnership combines the strengths of the community college and those of an upper-level university by increasing student access and eliminating inter-institutional barriers while fulfilling the distinctive responsibilities of each type of institution.

UTB/TSC offers Certificate, Associate, Baccalaureate, and Master's degrees in liberal arts and sciences, and in professional programs designed to meet student demand and regional needs. UTB/TSC also supports the delivery of doctoral programs through cooperative agreements with doctoral degree granting institutions.

UTB/TSC places excellence in learning and teaching at the core of its commitments. It seeks to help students at all levels develop the skills of critical thinking, quantitative

analysis and effective communications which will sustain lifelong learning. It seeks to be a community university which respects the dignity of each learner and addresses the needs of the entire community.

UTB/TSC advances economic and social development, enhances the quality of life, fosters respect for the environment, provides for personal enrichment, and expands knowledge through programs of research, service, continuing education and training. It convenes the cultures of its community, fosters an appreciation of the unique heritage of the Lower Rio Grande Valley and encourages the development and application of bilingual abilities in its students. It provides academic leadership to the intellectual, cultural, social, and economic life of the binational urban region it serves.

BACKGROUND INFORMATION

The process to arrive at this revised Mission Statement followed U. T. Brownsville's *Handbook of Operating Procedures* (HOP) Policy 4.6.1, Policy for Revising and Approving the Institutional Mission Statement. U. T. Brownsville and Texas Southmost College seek to modify the Mission Statement to include the offering of doctoral programs designed to meet student demand. There has been broad-based support for the development of doctoral programs at U. T. Brownsville and Texas Southmost College, including a mandate from the 2003-2005 Futures Commission. The Commission, which brought together 380 community and university leaders, recommended that the University expand its offerings to include doctoral programs in areas of excellence. The process of review of the Mission Statement to incorporate the offering of doctoral programs has included invited comments from the Executive Council, Provost's Council, Deans' Council, Deans' and Chairs Council, Academic Senate, Staff Senate, Student Government Association, Academic Affairs Partnership Committee, and the Texas Southmost College Board of Trustees. In all cases, including the offering of doctoral programs received full support.

This Mission Statement was previously approved by the U. T. System Board of Regents on May 14, 1998.

12. U. T. Arlington: Discussion of compact priorities

PURPOSE

President Spaniolo and Executive Vice Chancellor Sullivan will lead a discussion about the compact priorities for The University of Texas at Arlington as set out in the compact on Pages 64.1 - 64.15.

The University of Texas at Arlington
Compact with The University of Texas System
FY 2006 through FY 2007

I. Introduction

The University of Texas at Arlington is a Carnegie Doctoral Research Extensive institution whose mission is the advancement of knowledge and the pursuit of excellence in research, teaching, and public service. The institution is authorized by the Texas Higher Education Coordinating Board to offer 92 baccalaureate, 76 master's, and 35 doctoral degree programs. The mission statement supports comprehensive academic research; attracting and retaining high quality faculty scholars who actively engage students; a well-rounded academic experience promoting student involvement, service learning, and free discourse; alternative access venues to meet students' needs; and the development of public and private partnerships.

As an emerging major research university within The UT System, the institution serves over 25,000 students, including more than 6,000 graduate students. Presently, as in the past, the primary student base is the Dallas-Fort Worth-Arlington area and surrounding regions. In fall 2004, 10,651 (42.1%) students listed Tarrant County as their county of origin and 5,014 (19.8%) listed Dallas County. Approximately one-third of the graduate student population, however, is from outside the U.S. The student body is non-traditional in many ways. Most students enter UT Arlington as transfers, many with 60 or more hours already completed. The average age of students in fall 2004 was 26, and 34.5% attended the University on a part-time basis. According to the 2004 Student Survey, 73% of UT Arlington students hold jobs with 43% working more than 20 hours per week. It should be noted, however, that the cohort of traditional first-time freshman is growing. The size of the incoming freshman class has almost doubled since 1999, reaching 1,985 in fall 2004. These students have an average age of 18, almost all attend full-time, and approximately 41% live in campus residence halls or apartments. Ethnic enrollment illustrates the diversity of the UT Arlington population. In fall 2004, the overall student body was 12.2% African American, 11.7% Hispanic, 9.6% Asian, 0.6% Native American, and 11.9% International. It is estimated that the Hispanic student population will be UT Arlington's fastest growing student segment in the coming decades.

The University of Texas at Arlington is the second largest employer in the City of Arlington, utilizing over 4,900 persons in a variety of teaching and non-teaching positions. In fall 2004, there were 1,081 instructional faculty (not including graduate teaching assistants), 758 of whom were full-time, and 551 of whom were tenured or on tenure track (T/TT). The full-time faculty is approximately 36% female and 19% minority. Approximately 85% of the full-time faculty hold doctorates or other terminal degrees. Research expenditures generated by this faculty topped \$22 million in FY2004.

With an annual budget of \$310 million, the institution plays a critical role in the economic and social well being of the region, through direct and indirect expenditures, enhanced earning potential of its graduates, and improvements to the community's social and cultural fabric. A 2000 study estimates that UT Arlington's annual impact on local business volume exceeds \$260 million in Arlington and \$487 million in the Dallas/Fort Worth region. At present, the University owns about 400 acres of land in central Arlington, and 15 acres in Fort Worth. The UTA/Fort Worth Education Center offers classes on the site of the Automation and Robotics and Research Institute (ARRI).

II.A. Major Short-Term Priorities and Initiatives

The University of Texas at Arlington has three major short-term priorities and initiatives: (1) an excellence initiative with significant hiring of new research faculty and improvement in supporting systems and facilities, (2) a long-range visioning and planning exercise, and (3) expansion of the UTA/Fort Worth Education Center programming and enrollment.

Excellence Initiative I

In order for UT Arlington to continue on its trajectory of improvement as a Carnegie Doctoral Extensive Research Institution, it is most important to enhance the academic profile and overall reputation of the institution, increase and strengthen research programs, and establish a center of research excellence. Nine (9) objectives, established by the institution's internal constituencies, should be reached to achieve the desired short-term improvement level. The objectives include: (1) improving the overall academic reputation of UT Arlington, (2) raising the national rankings of selected programs, (3) improving the academic profile of the student body, (4) increasing the retention rates of enrolled students, (5) decreasing the time to graduation for enrolled students, (6) increasing the level of scholarly and creative activity, (7) increasing the level of sponsored research, (8) establishing a center of research excellence focused on nanotechnology, and (9) fueling technology-driven economic development. These objectives are related to the following institutional goals: enhancing the quality of UT Arlington's research environment, sustaining an ongoing effort to make the salary structure for faculty and staff fully competitive with peer universities, and aggressively promoting the university as a nationally respected university and the best comprehensive university in the region.

To achieve the first six objectives listed above, the Office of the Provost will continue moving forward with the application process for securing a Phi Beta Kappa (PBK) chapter.

UPDATE: An application was submitted requesting a site visit and consideration for a PBK chapter. The request was denied and constructive feedback was supplied regarding steps that must be taken prior to a successful application. Key steps are (1) improved graduation rates and (2) instituting a foreign language requirement across all fields. We will strive to accomplish the former and are taking many steps to ensure progress. The latter, however, is problematic given our mix of programs (e.g., engineering and various professional programs with accreditation-mandated, intensive credit hour requirements in the discipline). Given this we do not intend to pursue a PBK chapter in the near term.

Within the appropriate academic bodies, transfer student admission standards and graduate student admission standards will be reviewed and recommended to the UT System for increase. These steps follow upon the recent Board of Regents' approval to increase first-time freshmen admission standards.

UPDATE: New transfer admission standards have been approved and will be implemented for Fall 05. Graduate admission standards are being reviewed on a program by program basis.

Enhancement of UT Arlington's profile and reputation require financial investment in the University's faculty and recruitment of quality students. Faculty salaries must be reviewed and increases made to move them toward regionally competitive levels. The estimated cost of this endeavor over the next two years is \$3.5 million with funding derived from enrollment and designated tuition increases. An additional investment in faculty members will be accomplished through the establishment of a faculty mentoring program. It is believed that the camaraderie generated by this program will improve faculty retention and satisfaction.

UPDATE: A comprehensive salary review has been completed. UTA faculty salaries have been compared by discipline and faculty rank to all Doctoral Extensive institutions as well as peer institutions identified in the UT System Accountability Report. Limitations on tuition changes have restricted funds available for salary increases. A 3% merit pool will be provided for faculty salary increases effective September 2005. The faculty mentoring program was established, and 32 new faculty were matched with mentors.

To attract quality students, UT Arlington will dedicate \$100,000 of its increased designated tuition funds to recruit and retain national merit scholars. To enhance doctoral level enrollments, \$195,000 from the enhanced designated tuition financial aid set-aside will be used to fund one-year doctoral dissertation fellowships, and an additional \$300,000 will be used for Ph.D. engineering and science student fellowships to offset designated tuition and fees. Additionally, the University will continue to increase its investment in the Computer Science and Engineering "Top 25 Initiative" by providing \$750,000 in faculty

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hires and start up costs for 2004-2005. The source of these funds will be the enhanced designated tuition.

UPDATE: These funds were made available as indicated.

It is believed that an increase in sponsored research can be achieved by the implementation of a number of strategies. First, UT Arlington has established an Academy of Distinguished Scholars to recognize, reward, and promote research excellence. Inductees receive a \$2,500 salary increase and recognition at a university-wide ceremony. The annual cost of the initial inductees will be \$25,000.

A special effort will be made to hire established, senior-level faculty members who can bring funding and recognition to UT Arlington in key areas. The estimated cost of adding these senior research productive faculty is \$1.9 million in annual salaries and \$2.5 million in one-time start up costs. These items will be funded from designated tuition increases and academic "balance forward" funds. It is expected that an additional \$2.7 million in salary funds and \$3.9 million in start up funds can be provided in 2005-2006 to retain the progress of this crucial strategy.

UPDATE: Faculty hires were completed as described. Twenty-six new faculty have been hired, and searches are still underway for several replacement faculty.

To further assist these research faculty members, over \$900,000 in increased designated tuition funds will be directed to making graduate assistant stipends more competitive. In addition to these funded items, collaborations across campus and with other institutions will be encouraged with specific assistance provided to faculty seeking large grants and/or congressional earmarks in areas of national need. Ongoing industrial partnerships, such as the recently signed agreement with Vought, the MOU with Sandia National Laboratories, and the Metroplex Medical Imaging initiative will be supported with targeted faculty hires, and new industrial partnerships will be fostered where appropriate for the University's mission. UTA's Grants and Contracts Office will work with each college/school to increase the number of research proposal submissions. An estimated \$65,000 will be dedicated to increase the staffing in that unit to carry out this task.

UPDATE: Funds were added to the Office of Research, and a new Director of Research Compliance was hired. Small seed grants have been provided to encourage faculty collaborations with researchers at The University of Texas Southwestern Medical Center at Dallas (UTSW), The University of Texas at Dallas (UTD), Rice University, The University of Texas at Austin, and University of North Texas Health Science Center (UNTHSC).

The final two objectives listed above, a nanotechnology research center of excellence and technology-driven economic development will be supported by six specific strategies. Over \$1 million will be spent on improvements to the NanoFAB center to accommodate new faculty hires and new instrumentation. The source of these funds will be increased designated tuition funds and the allocation of balance forward funds. Space for a new Center for Nanostructured Materials will be provided in the new chemistry and physics building, currently under construction on campus, and expected to be completed in early 2006. The Grants and Contracts Office and the Arlington Technology Incubator will encourage the development of large-scale, cross-cutting nanotechnology center research proposals and facilitate technology transfer of intellectual property. The Institute for Nanoscale Science and Engineering Research and Technology (INSERT) will be included as a national demonstration project in Arlington to promote workforce development, and INSERT laboratories will be used for training students interested in nanotechnology. Lastly, a vehicle will be developed to engage the Hispanic population of Texas as a workforce initiative within the Nano-at-the-Border Memorandum of Agreement.

UPDATE: NanoFAB facilities renovations were completed in AY 2004-05, and supporting faculty hires were made.

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Progress measures for the above objectives and strategies are:

Progress Measure	Report
The number of graduate programs ranked in the top 50 by US News & World Report in AY2006-07 compared to AY2004-05	In 2004, the School of Urban and Public Affairs ranked 26 th in the specialty category of City Management and Policy Administration and the School of Social Work ranked 33 rd among graduate social work programs.
% of entering degree-seeking freshman in Fall 2005 who ranked in the top 10% of their high school class, compared to % in the Fall 2003 cohort	Fall 02: 15.5% Fall 03: 15.5% Fall 04: 19.6%
% of entering degree-seeking freshman in Fall 2005 who ranked in the top quartile of their high school class, compared to the % in the Fall 2003 cohort	Fall 02: 42.4% Fall 03: 48.6% Fall 04: 58.4%
Mean SAT scores of entering freshman cohort in Fall 2005 compared to Fall 2003	Fall 02: 1046 Fall 03: 1081 Fall 04: 1077
Number of National Merit Scholars enrolled at UTA in Fall 2005 compared to Fall 2003	Fall 02: 2 (2 new) Fall 03: 7 (5 new) Fall 04: 9 (3 new)
Funds awarded for graduate assistantships in FY2006 compared to FY2004	FY02: \$7,744,051 FY03: \$9,621,643 FY04: \$10,329,011
One-year retention rate for first-time full-time degree seeking freshmen entering in Fall 2004 compared to the Fall 2002 cohort	Entered Fall 02, retained in Fall 03: 70.4% Entered Fall 03, retained in Fall 04: 68.8%
Median time to degree for bachelor's recipients in AY2004-05 who started at UTA as first-time freshmen, compared to those who graduated in AY2002-03	AY02-03 bachelor's recipients: 16.0 semesters AY03-04 bachelor's recipients: 14.0 semesters (Note: Based on 3 semesters per academic year.)
Number of tuition fellowships awarded to PhD track students in FY2007 compared to FY2005	N/A – Program to begin in Fall 05
Number and percent of FTE tenured/tenure-track faculty holding extramural grants in FY2006 compared to FY2004	FY02: 114 or 24% FY03: 108 or 22% FY04: 133 or 27%
Total research expenditures in FY2006 compared to FY2004	FY02: \$21,072,961 FY03: \$23,314,937 FY04: \$22,417,131
Research expenditures by funding source in FY2006 compared to FY2004	FY04: Federal = \$11,093,256; State = \$7,935,643; Private = \$3,290,228; Local = \$98,003
Total federal research expenditures in FY2006 compared to FY2004	FY02: \$7,923,657 FY03: \$7,993,576 FY04: \$11,093,256
Number of funded research projects at or above the level of \$1 million per year in FY2006 compared to FY2004	FY02: 4 FY03: 4 FY04: 5
Number of patents filed in FY2006 compared to FY2004	FY02: 5 FY03: 11 FY04: 9
Number of PhD track students enrolled in Fall 2005 compared to Fall 2003	Fall 02: 668 Fall 03: 820 Fall 04: 859
PhD track students as percentage of total graduate student population in Fall 2005 compared to Fall 2003	Fall 02: 10.8% Fall 03: 13.4% Fall 04: 13.9%
Number of PhD degrees awarded in FY2006 compared to FY2004	AY01-02: 71 AY02-03: 62 AY03-04: 75

To achieve this Excellence Initiative, two related initiatives have been undertaken, i.e., the implementation of a new student information system (SIS) and the maintenance, renewal, and construction of appropriate facilities. UT Arlington is at some risk because the existing student records system is largely legacy based. Embedded within the current system are a number of outmoded business processes and a lack of real-time access. A new integrated SIS is related to the institutional goals for a state-of-the-art information technology environment and enhancement of the effectiveness and efficiency of university operations. The computer and technology fee has been significantly increased to cover the cost of the project with an annual set aside of \$2.5 million. During a two-year implementation, current estimates for hardware/software total \$10.5 million. Additional personnel costs during this phase could

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be \$1.5 million. Debt financing will be needed to implement the system on a short-term basis. At this time, a document imaging project is also underway to prepare business processes for a new SIS.

UPDATE: The People Soft Student Information System conversion was launched. An oversight committee was constituted, a charter was developed, and a risk analysis was conducted. Orientation and "fit gap" sessions were conducted and a co-location site was secured for the project team in January 2005.

The progress measure for the implementation of the SIS is:

Progress Measure	Report
Ratings received on the four QA reports to be compiled by Cedar over the life of the project	The first QA Report, completed in March 2005, found the project to be on time and under budget, and showed an overall rating of "Excellent"

Changes in the academic structure require facility maintenance and renewal, new construction projects, land acquisitions, major facility renovations, and space programming. To achieve this, UT Arlington must provide (1) well maintained, safe, code compliant facilities; (2) sufficient space to support enrollment increases and research activities; (3) sufficient land area to build upon; (4) renovated facilities to meet changing space needs; and (5) effective space planning to determine future space needs and adherence to the Campus Master Plan. These objectives are related to the institutional goals for a supportive learning environment that contributes to student success, to enhance the quality of UT Arlington's research environment, and to enhance the effectiveness and efficiency of university operations. Six strategies will be undertaken to achieve these objectives. Projects outlined in the THECB MP Reports to address deferred maintenance and the Capital Renewal Model will be completed. \$19 million is needed to address the backlog, and an average of \$5-6 million is needed to address annual capital renewal needs. Additional state appropriations have been requested and \$1-2 million of the University's LERR request will be allocated to this endeavor, but beyond that point, no other funds are available at this time. UT Arlington will continue working toward completion of the \$20 million in projects outlined in the 2002 Schirmer Report to achieve fire and life safety code requirements. Funding to date has been from the PUF, auxiliary enterprise fund balances, and RFS bond proceeds. Additional state appropriations have been requested. Construction of new facilities to include the Chemistry and Physics Building, the Studio Arts Center, University Center Cafeteria Addition, and KC Hall have been completed. Meadow Run Apartments-Phase II will be completed in July 2005, and the Chemistry and Physics Building will be completed in November 2005. \$81,804,445 is being funded through tuition revenue bonds, PUF bonds and revenue financing system bond proceeds. Additional property within the approved boundary acquisition area will be acquired over the next several years. \$9,450,000 is estimated for this endeavor, to be funded with designated tuition, unexpended plant funds balances, and auxiliary enterprise balances. Space renovations in the NanoFAB Teaching and Research Building, Life Sciences Building, and Fine Arts Building will be completed in FY 2005. \$3.3 million has been allocated to complete the projects. Excellence funds, plant fund balances and an allocation from Indirect Cost Recovery funds were the payment sources. Lastly, \$35,000 in space planning and preliminary programming efforts for the Engineering Research Building to be constructed on the main campus has been accomplished and paid for from plant fund balances.

UPDATE: The Engineering Research Building received an "Excellent" rating from the Texas Higher Education Coordinating Board for Tuition Revenue Bond consideration, and is currently on the "special consideration" list with the Legislature.

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Funding is the major obstacle for all facility projects. Progress measures for these strategies include:

Progress Measure	Report
Accumulated deferred maintenance (ADM) less than 5% of total for Building Replacement Cost as measured annually	In FY04, ADM of \$19,127,000 was 4.35% of Building Replacement Cost (\$439,251,631)
Completion of scheduled life safety, fire and security code compliant projects to be documented by annual progress reports generated from the Schirmer Report database	To date, 849 of the 1,485 items listed in the 2002 Schirmer Report have been completed at an estimated cost of \$7.4 million
Maintaining construction schedules as documented by comparing the schedules to the Capital Improvement Plan	In FY04, all projects were completed as scheduled in the Capital Improvement Plan
Adherence to the facility renovation schedule as documented by the Annual Report	In FY04, 109 renovation projects were completed as scheduled at an approximate cost of \$48,000,000
Comparison of classroom and lab utilization rates in Fall 2003 to Fall 2006	Classroom – Fall 03: 29.1 Fall 04: 31.8 Lab – Fall 03: 24.5 Fall 04: 22.0
Maintaining an acceptable Facility Condition Index	Not yet available

Visioning and Planning Exercise

UT Arlington is at a crossroads. Enrollments have returned to record levels, and the student body is becoming more “traditional”. The university has devoted an increasing number of resources to enhancing its research profile and to securing federal funding. Community interest in the institution is at an all-time high. All of these indicators point to the need for a comprehensive visioning and planning exercise. Issues that need to be addressed include: (1) areas and levels of future growth, (2) specification of targeted areas of excellence, (3) the development of resource allocation models and performance metrics, and (4) possible revision of the campus master plan. This exercise is related to the institutional goals for a supportive learning environment that contributes to student success and results in a technologically advanced workforce, to enhancement of the quality of the university's research environment, to enhancement of the effectiveness and efficiency of university operations, and to increasing collaboration with health institutions. Four key strategies will be undertaken in support of these objectives. First, the entire campus community has been engaged in a broad-based visioning and planning exercise. Second, when the draft visioning and planning document is complete, it will be shared with members of the Arlington community for input. Third, the final visioning document will be used to build a comprehensive university case to assess donor readiness for a future capital campaign. And fourth, the academic plan which emerges from the planning process will be utilized to update the campus master plan, thus ensuring the physical development of the campus aligns with the university's academic plan.

Progress will be evaluated by timely completion of the following steps:

Progress Measure	Report
Completion of the steps outlined in the planning framework:	
1) President's strategic conversations with various universities (Fall 2004/Spring 2005)	Completed
2) SWOT Analysis conducted by Strategic Planning Committee (January – March 2005)	Completed
3) Deans' Planning Retreat (April 2005)	Completed
4) Draft of goals and objectives for Strategic Plan (May 2005)	In progress
5) Review of draft goals and objectives by campus community (September – October 2005)	
6) Final version of goals and objectives (December 2005)	
7) Responsible parties develop action plans for goals and objectives (Spring 2006)	
8) Final version of UTA Strategic Plan for 2006 – 2010 completed (May 2006)	

UTA/Fort Worth

UTA/Fort Worth began offering programs to meet the needs of working students and to provide access to students who lack public transportation options in Arlington. Currently, the center is sharing space with the Automation Robotics and Research Institute (ARRI), offering a program at Bell Helicopter/Textron, and teaching courses on two Tarrant County College (TCC) campuses. Due to space limitations at the ARRI and TCC locations, and due to security limitations at the Bell Helicopter site (both major obstacles), UT Arlington must seek alternatives for its Fort Worth Center. The objectives of this initiative are to increase enrollment at UTA/Fort Worth and to expand academic programs offered through UTA/Fort Worth. These objectives are directly tied to the State Closing the Gaps access goals. UT Arlington will include new lease space in Fort Worth in its space planning and preliminary programming efforts. This will include approximately 20,000 sf for offices, classrooms, lounges and a library with a delivery date of Spring 2006. Lastly, Fort Worth Center officials will identify temporary space for program expansion.

UPDATE: Two site selection studies were completed. Special item funds have been requested to equip future lease space. A new UTA/Fort Worth interim director was put in place in December 2004. Possible lease space alternatives in downtown Fort Worth have been located and are being assessed for possible Spring 2006 occupancy.

Progress measures will be:

Progress Measure	Report
SCH generation in courses offered through UTA/Fort Worth in Fall 2005 compared to Fall 2003	Fall 03: 2,178 Fall 04: 2,178
Headcount enrollment at UTA/Fort Worth in Fall 2005 compared to Fall 2003	Fall 03: 726 Fall 04: 726
Number of courses offered through UTA/Fort Worth in Fall 2005 compared to Fall 2003	Fall 03: 25 courses in 14 subjects Fall 04: 27 courses in 14 subjects

II. B. Major Long-Term Priorities and Initiatives

On a longer term basis, UT Arlington plans to continue its excellence initiative accompanied by further facilities and information technology upgrades. The campus will take its nanotechnology objectives to another level with the establishment of a Bioscience and Bioengineering Research Center of Excellence. By this time, the university also expects to be in a position to greatly enhance its development efforts. The institution is still in the process of identifying funding resources for these initiatives.

Excellence Initiative II

The most important long-term initiative UT Arlington can undertake is to continue to enhance its academic profile and overall reputation, expand its research programs, and establish centers of research excellence. The objectives identified within the Excellence Initiative I are applicable on a continuing basis because they constitute the heart of the institution. It is expected that, in the long term, the establishment of new centers of research excellence will move beyond nanotechnology to emerging areas on the cusp of scientific, engineering, and academic exploration. These excellence goals relate to the following institutional goals: enhancing the quality of UT Arlington's research environment, sustaining an ongoing effort to make the salary structure for faculty and staff fully competitive with peer universities, and aggressively promoting the university as a nationally respected university and the best in the region. Eight strategies will be implemented to meet the objectives: (1) an increase in funds will be needed for the purchase and renewal of research equipment; (2) a new research magazine will be published showcasing the University's research activities; (3) a systematic review and improvement of center, laboratories, and libraries will commence; (4) funds to improve faculty salaries will be identified and awarded; (5) faculty teaching workloads will be evaluated and restructured where appropriate; (6) endowed professorships will be created and filled in targeted areas of excellence; (7) additional research

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faculty will be hired in targeted areas; and (8) fellowships to offset tuition and fees will be provided for Ph.D. students in science and engineering.

Identified progress measures include:

Progress Measure	Report
The number of graduate programs ranked in the top 50 in AY2006-07 compared to AY2004-05	
One-year retention rate of first-time full-time freshman cohort entering in Fall 2008 compared to Fall 2004 and Fall 2006 cohorts	
Four-, five-, and six-year graduation rates of full-time freshman cohorts entering in Fall 200 and Fall 2005 compared to Fall 2002 and Fall 2003	
Two-, three- and four-year graduation rates of full-time transfer students entering with more than 60 hours in Fall 2007 and Fall 2008 compared to Fall 2002 and Fall 2003	
% of entering freshman in Fall 2008 graduating in top 10% and top high school quartile compared to Fall 2003 cohort	
Mean and median SAT scores of entering freshman cohort in Fall 2008 compared to Fall 2003 and Fall 2005	
Number of National Merit Scholars among entering freshman class in Fall 2008 compared to Fall 2003 and Fall 2005	
Funds awarded for graduate assistantships in FY2009 compared to FY2006 and FY2004	
Number of tuition fellowships awarded to PhD track students in FY2009 compared to FY2007 and FY2005	
Total research expenditures in FY2009 compared to FY2006 and FY2004	
Total federal research expenditures in FY2009 compared to FY2006 and FY2004	
Number of funded research projects at or above the level of \$1 million per year in FY2009 compared to FY2006 and FY21004	
Number of patents filed in FY2009 compared to FY2006 and FY2004	
Number of PhD track students enrolled in Fall 2008 compared to Fall 2005 and Fall 2003	
PhD track students as percentage of total graduate student population in Fall 2008 compared to Fall 2005 and Fall 2003	
Number of PhD degrees awarded in FY2009 compared to FY2006 and FY2004	
Number of endowed professorships and percent filled in FY2009 compared to FY2006 and FY2004	

Related facility and information technology infrastructure changes will be required as part of the drive for excellence. In addition to the five objectives described under the Excellence I Facilities Initiative, a sixth objective will be to expand the pervasiveness of information technologies to secure anytime/anywhere access. These objectives relate to the enhancement of four institutional priorities, i.e., a supportive learning environment that contributes to student success, the quality of UTA's research environment, support for a state-of-the-art information technology environment, and the effectiveness, efficiency, and security of university information operations.

Finally, these Facility Planning goals and objectives are related to the following Institutional, System and/or State strategies: (1) "Closing the Gaps" – New buildings will provide additional space allowing more students to attend UTA (Participation and Success); (2) "Closing the Gaps" - New and renovated science and research buildings / space will enhance the university's ability to recruit faculty and compete

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successfully for research funding (Research and Excellence); and (3) "Closing the Gaps" – Integration of technology into instruction will provide additional tools for the delivery of academic programs (Success). Numerous strategies will be undertaken to meet these objectives and support the academic enterprise:

- Continued progress toward addressing deferred maintenance and capital renewal projects.
- Continued progress toward addressing the projects outlined in the Schirmer Report to achieve compliance with fire and life safety code requirements for existing facilities.
- Secure funding for the construction of the Engineering Research Building and a Bioscience and Bioengineering Building.
- Property acquisitions within the approved boundary acquisition area in accordance with the Campus Master Plan (May 2000) to support the continued growth of the campus.
- Science Hall space renovations (after completion of the Chemistry and Physics Building) to meet pressing academic and research space requirements.
- Update the Campus Master Plan to properly align with the academic plan.
- Expansion and upgrades to the IT infrastructure, specifically network, servers and storage systems, and network and security services will be required. The budget for funds collected from the computer and technology fee will be planned to maximize IT infrastructure development.
- A campus wireless infrastructure connected to the campus backbone wired network will be built.
- A campus technology refresh plan will be completed and implemented.
- The project to upgrade network switches from 3Com to Cisco will be completed permitting a full 1 gigabit backbone network with attendant full use of network control software.
- 640 MB/sec or greater connectivity to Internet II or Lambda Rail network.
- A vulnerability analysis will be completed and actions taken to secure the infrastructure. These actions include the hiring of additional IT security personnel, implementation of a campus-wide firewall system, takeover of the College of Engineering network, and other related security measures.
- A full-scale disaster recovery plan will be implemented.

Progress measures would be similar to those in the short-term priorities section above plus the following:

Progress Measure	Report
Deferred maintenance to building replacement cost value < 5%	

Bioscience and Bioengineering Research Program

The 21st century will be known as the century of explosive progress in the life sciences. Furthermore, the life sciences arena holds the largest potential for increased funding at the university. Coupled with the notion of convergence in nanotechnology, biotechnology, information technology, and cognitive research, UTA has formed a converging Bioscience and Bioengineering Center (BBC). The center engages approximately 25 faculty members in engineering and science and exists to foster development of cross-disciplinary research areas that require contributions from several units. Three major areas of emphasis include: (1) the related areas of bioinformatics, genomics, (2) biocomplexity, computational biology and biostatistics; and (3) biomedical device, tissue engineering, imaging and sensor development. To achieve this initiative, UT Arlington will leverage crosscutting university resources and activities with local government and business to increase federal funding of research and the stature of its biotechnology research. Institutional goals related to this priority are enhancement of the quality of the research environment and aggressive promotion of UT Arlington as a national respected university and the best in the region. Specific strategies related to this endeavor will include: (1) focused faculty hiring in biotechnology related fields with appropriate startup funding; (2) targeted seed funding of new biotechnology proposals; (3) continued infrastructure development with an anticipated federal earmark for the BBC under consideration by Congress; (4) large-scale, crosscutting biotechnology center proposals; (5) technology transfer of intellectual property into the Arlington Technology Incubator (ATI)

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will be encouraged and facilitated; (6) training for students interested in biotechnology; (7) development of interdisciplinary degree programs in genomics and bioinformatics; (8) convergence of the nanoscience, MEMs, genomics (gene chips etc) and sensor design efforts to create a nanobio program; and (9) collaboration with U. T. Southwestern Medical Center and UT Dallas to partner on research.

Progress measures could include:

Progress Measure	Report
Number of new faculty members hired into BBC since Fall 2004	
Number of proposals submitted by BBC faculty during AY2008-09	
External research funding for BBC during FY2009	
NIH funding for BBC in FY09 compared to FY06	
% of square footage in Life Science renovated by the end of FY2009	
Number of collaborative projects with UT Southwestern and UTD in related areas in FY09 compared to FY06	

Development Initiative

UT Arlington is currently restructuring its development office. With a new development vice president in place, development efforts will be aligned with the university's vision identified in the short-term priorities listed above. This alignment and the related efforts is expected to increase the contribution to the university budget for programmatic and capital needs derived from private external sources through operational support and increased endowment income. It is essential that external resources are garnered in order to aggressively promote UTA as a nationally respected university and the best university in the region. Specifically, the Office of Development will (1) expand and empower the network of university friends and advocates to carry UTA's established branding message and secure critical external support; (2) build relationships with more donor prospects/donors through a systematic, consistent and expanded major gifts initiative; (3) complete feasibility studies initiated in the short-term; evaluate results to determine capital campaign readiness; (4) refine the university case statement based on results of assessments; (5) leverage greater alumni support through increased percentage of giving through the Annual Fund; (6) launch a comprehensive university capital campaign; and (7) reorganize development infrastructure to provide a dedicated development officer to major academic units.

Progress measures may include:

Progress Measure	Report
% of alumni who hold membership in Alumni Association in FY2009 compared to FY2004	FY03: 3.8% FY04: 4.1%
Donor support (\$\$) in FY2009 compared to FY2004	FY03: \$6,275,607 FY04: \$4,728,540
% of alumni donating to UTA in FY2009 compared to FY2004	FY03: 3.2% FY04: 3.4%
Alumni donations (\$\$)	FY03: \$395,107 FY04: \$562,340

III. Future Initiatives of High Importance

The highest priority in the short-term, intermediate, and long-term is continuance of the Excellence Initiative and accompanying upgrades in facilities and technology infrastructure. For UT Arlington to advance in stature, it must continue to enhance its academic profile and overall reputation, significantly increase its research faculty and programs, and establish additional centers of research excellence. To meet this priority, objectives will be similar to the aforementioned items but will be updated for emerging

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areas and technologies as resources allow. At this time, it is anticipated that the following institutional, System, and state goals will remain unchanged:

- Enhancing of the quality of UT Arlington’s research environment,
- Expanding the research infrastructure on campus,
- Sustaining an ongoing effort to make the salary structure for faculty and staff competitive with peer institutions,
- Aggressive promotion of the university as a national respected university and the best in the region,
- A commitment to a supportive learning environment that contributes to student success,
- Enhancing the effectiveness and efficiency of university operations,
- “Closing the Gaps,” and
- Maintaining and renewing facilities to meet the changing needs of the university.

As such, specific strategies will also be similar to those outlined in the short-term and intermediate term sections above. To measure the outcomes of these actions, the following comparisons could be made:

Progress Measure	Report
Total research expenditures in FY2014 compared to FY2009	
Total federal research expenditures in FY2014 compared to FY2009	
Number of patents filed in FY2014 compared to FY2009	
Number of active funded projects at or above the level of \$1 million per year in FY2014 compared to FY2009	
Number of PhD track students enrolled in Fall 2013 compared to Fall 2008	
PhD track students as percentage of graduate student population in Fall 2013 compared to Fall 2008	
Number of PhD degrees awarded in FY2014 compared to FY2009	
Number of tuition fellowships awarded to PhD track students in FY2014 compared to FY2009	
% of entering freshman in Fall 2013 graduating in top 10% or top high school quartile compared to Fall 2008	
Mean and median SAT scores of entering freshman cohort in Fall 2013 compared to Fall 2008 cohort	
Number of National Merit Scholars among entering freshman class in Fall 2013 compared to Fall 2008	
Number of graduate programs ranked in the top 50	
One-year retention rate of first-time full-time freshman cohort entering in Fall 2013 compared to Fall 2008	
Four-, five- and six-year graduation rates of full-time freshman cohorts entering in Fall 2009 and Fall 2010 compared to Fall 2005 and Fall 2006	
Two-, three- and four-year graduation rates of full-time transfer students entering with more than 60 hours in Fall 2009 and Fall 2010 compared to Fall 2005 and Fall 2006	
Number of endowed professorships and percent filled in FY2014 compared to FY2009	
Average weekly hours of classroom and class lab use in Fall 2013 compared to Fall 2008	
Assignable square feet per FTE student in Fall 2013 compared to Fall 2008	
Facilities condition index in AY2013-14 compared to AY2008-09	

IV. Other Critical Issues Related to Institution Priorities

A. Impact of Initiatives

The essence of the excellence strategies is to gradually change the shape of UT Arlington's student profile. The intent is not to eliminate growth, rather to slow it and shape it in selected areas. The exponential growth experienced in the past few years has caused some structural issues in a few units so future growth must be managed in a way that ensures enhanced program quality and addresses the research mission of the university. Changes in admission standards have been carefully analyzed and set to avoid undesired impacts on diversity improvements. It is expected that the recent and future changes in standards will improve the student profiles of all students.

B. Unexpected Opportunities or Crises

There are two financial situations that could present great hardship to UT Arlington. First, the University stands to lose several million dollars if the changes in formula funding adopted by the Coordinating Board withstand voting during the current legislative session. Secondly, if there is a reversal or change in the tuition deregulation process, the University will lose a material portion of its ability to implement its Excellence Initiatives and be competitive with other institutions. The University has made strides in hiring well-funded faculty researchers. These quality additions are critical to advancement of the excellence initiatives. Any budget reductions could jeopardize progress made thus far and severely impede future enhancement of the University's academic profile and research endeavors.

V. System and State Priorities

System and state priorities are addressed in Sections II through IV of the Compact.

VI. Compact Development Process

Interim President Charles Sorber began the compact development process by holding a series of meetings with executive level administrators and requesting ideas for the compact. Substantial discourse occurred as ideas were clarified and defined. Once a primary set of ideas was established, information was shared with the academic deans and received extensive feedback from the group. A preliminary draft of the compact document was then shared with both the Faculty Senate and student leadership who provided feedback. All ideas were then compiled and passed on to President James Spaniolo who compiled the first complete version of this document.

Late in the Fall Semester 2004 President Spaniolo held a series of "strategic conversations" with faculty, staff, students, and the UTA/Fort Worth Higher Education Center Advisory Board. These conversations, focused on key issues and priorities for UTA, helped inform the development of this version of the Compact. Executive-level administrators provided updates on priorities and initiatives in their areas, which were then incorporated into this document. The Compact update was shared with the Faculty Senate Executive Committee and will be disseminated to the larger faculty and student governance bodies early in the fall.

VII. System Contributions

- Support for expansion of collaborations (Academic Affairs, Health Affairs)
- Support for expansion of community and state support (Governmental Relations)
- Support for capital expansion and improvements (Facilities Planning and Construction)
- Support for development efforts (External Relations)

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VIII. Appendices

A. Budget Summary:

**The University of Texas at Arlington
Operating Budget
Fiscal Year Ending August 31, 2005**

	FY 2004 Adjusted Budget	FY 2005 Operating Budget	Budget Increases (Decreases) From 2004 to 2005	
			Amount	Percent
Operating Revenues:				
Tuition and Fees	\$ 106,874,361	135,351,203	28,476,842	26.6%
Federal Sponsored Programs	25,903,564	31,091,693	5,188,129	20.0%
State Sponsored Programs	5,540,327	8,064,247	2,523,920	45.6%
Local and Private Sponsored Programs	4,198,514	4,070,761	(127,753)	-3.0%
Net Sales and Services of Educational Activities	6,444,777	5,605,170	(839,607)	-13.0%
Net Sales and Services of Hospital and Clinics	-	-	-	-
Net Professional Fees	-	-	-	-
Net Auxiliary Enterprises	15,884,522	18,911,418	3,026,896	19.1%
Other Operating Revenues	6,160,452	5,981,296	(179,156)	-2.9%
Total Operating Revenues	171,006,517	209,075,788	38,069,271	22.3%
Operating Expenses:				
Instruction	97,518,847	105,310,009	7,791,162	8.0%
Academic Support	23,405,880	24,733,221	1,327,341	5.7%
Research	33,913,298	42,142,332	8,229,034	24.3%
Public Service	3,941,201	3,741,634	(199,567)	-5.1%
Hospitals and Clinics	-	-	-	-
Institutional Support	32,539,204	38,077,635	5,538,431	17.0%
Student Services	9,846,204	17,137,348	7,291,144	74.1%
Operations and Maintenance of Plant	17,681,253	20,191,228	2,509,975	14.2%
Scholarships and Fellowships	10,695,950	13,676,551	2,980,601	27.9%
Auxiliary Enterprises	26,015,350	29,373,972	3,358,622	12.9%
Total Operating Expenses	255,557,187	294,383,930	38,826,743	15.2%
Operating Surplus/Deficit	(84,550,670)	(85,308,142)	(757,472)	0.9%
Nonoperating Revenues (Expenses):				
State Appropriations & HEAF	96,223,840	96,904,459	680,619	0.7%
Gifts in Support of Operations	221,432	224,915	3,483	1.6%
Net Investment Income	3,038,527	3,115,856	77,329	2.5%
Other Non-Operating Revenue	-	-	-	-
Other Non-Operating (Expenses)	-	-	-	-
Net Non-Operating Revenue/(Expenses)	99,483,799	100,245,230	761,431	0.8%
Transfers and Other:				
AUF Transfers Received	-	-	-	-
AUF Transfers (Made)	-	-	-	-
Transfers From (To) Unexpended Plant	300,000	280,000	(20,000)	-6.7%
Transfers for Debt Service	(14,945,449)	(16,261,425)	(1,315,976)	8.8%
Other Additions and Transfers	7,991,487	12,304,089	4,312,602	54.0%
Other Deductions and Transfers	(7,741,956)	(12,453,598)	(4,711,642)	60.9%
Total Transfers and Other	(14,395,918)	(16,130,934)	(1,735,016)	12.1%
Surplus/(Deficit)	\$ 537,211	(1,193,846)	(1,731,057)	-322.2%
Total Revenues	\$ 270,490,316	309,321,018	38,830,702	14.4%
Total Expenses and Debt Service Transfers	(270,502,636)	(310,645,355)	(40,142,719)	14.8%
Surplus (Deficit)	\$ (12,320)	(1,324,337)	(1,312,017)	

Note: Operating Budget Highlights with a glossary of terms are included on Page 1.

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B. Statistical Profile:

UT Arlington

ENROLLMENT	<i>fall</i>	2000	2001	2002	2003	2004
Undergraduate		15,449	16,330	17,649	18,867	19,114
Graduate		4,975	4,850	6,172	6,112	6,183
Total		20,424	21,180	23,821	24,979	25,297

PERSISTENCE	<i>yr of matriculation</i>	1998	1999	2000	2001	2002
1st year persistence		65.8%	65.9%	68.0%	65.6%	66.4%

GRADUATION	<i>yr of matriculation</i>	1995	1996	1997	1998	1999
4-year graduation rate		9.6%	13.2%	12.7%	12.3%	14.5%
5-year graduation rate		22.4%	29.3%	30.6%	29.5%	
6-year graduation rate		30.6%	36.4%	36.8%		

DEGREES AWARDED	<i>academic year</i>	99-00	00-01	01-02	02-03	03-04
Baccalaureate		2,813	2,798	2,892	3,150	3,280
Master's		975	1,087	1,069	1,366	1,796
Doctorate		78	87	72	62	75

FACULTY / STAFF	<i>fall</i>	2000	2001	2002	2003	2004
All instructional staff		1,192	1,216	1,255	1,302	1,365
Classified employees		1,057	1,252	1,275	1,254	1,301
Administrative/professional employees		327	968	444	424	446
Student employees		1,521	1,026	1,737	1,724	2,145

STUDENTS/FACULTY	<i>academic year</i>	99-00	00-01	01-02	02-03	03-04
FTE student / FTE faculty ratio		19 to 1	20 to 1	20 to 1	22 to 1	22 to 1

RESEARCH	<i>fiscal year</i>	2000	2001	2002	2003	2004
Federal research expenditures		\$5,242,897	\$9,224,210	\$7,923,657	\$7,993,576	\$11,093,256

REVENUE/STUDENT	<i>fiscal year</i>	2000	2001	2002	2003	2004
Revenue/FTE student (nearest thousand)		\$11,000	\$12,000	\$12,000	\$10,000	\$11,000

ENDOWMENT	<i>as of</i>	8/31/99				8/31/04
Endowment total value		\$29,822,000				\$38,512,000

13. **U. T. System Board of Regents: Update regarding Task Force on Admissions, Tuition, and Financial Aid**

REPORT

Dr. Teresa A. Sullivan, Executive Vice Chancellor for Academic Affairs, will report on the U. T. System's admissions issues related to the Board of Regents' Task Force on Admissions, Tuition, and Financial Aid.

Regent Caven was appointed to head the Task Force on Admissions, Tuition, and Financial Aid at the Board meeting on November 18, 2003. The mission of the Task Force was to: 1) develop strategies which bring together admissions, tuition, and financial aid policies in a comprehensive policy unit for the Board to enhance recruitment, enrollment, retention, and graduation of The University of Texas System students while focusing on admissions, tuition, and financial aid; and (2) structure the long-term processes under which the Board of Regents of The University of Texas System develops its admissions, tuition, and financial aid policies.

14. **U. T. System: Discussion of System-wide initiative to improve graduation rates**

PURPOSE

Executive Vice Chancellor Sullivan will lead a discussion on the U. T. System-wide initiative to improve graduation rates for academic institutions.

BACKGROUND INFORMATION

Each fall, approximately 50,000 to 60,000 students enter Texas public universities for the first time. Of these students, approximately 43,000 enroll in at least 12 semester credit hours (SCH) and are considered to be full-time students. The Texas Higher Education Coordinating Board estimates that of those enrolled full time, 52.6% had graduated with a baccalaureate degree six years after first enrolling. Moreover, the Coordinating Board studies estimate that 33.3% of those students were no longer enrolled and had not graduated.



TABLE OF CONTENTS FOR HEALTH AFFAIRS COMMITTEE

Committee Meeting: 8/10/2005

Board Meeting: 8/11/2005
U. T. Medical Branch - Galveston

Rita C. Clements, *Chairman*
H. Scott Caven, Jr.
Judith L. Craven, *M.D.*
Cyndi Taylor Krier
Robert B. Rowling

	Committee Meeting	Board Meeting	Page
Convene	1:30 p.m. <i>Chairman Clements</i>		
1. U. T. System: Quarterly report on health issues by Executive Vice Chancellor Shine	1:30 p.m. Report <i>Dr. Shine</i>	Not on Agenda	66
2. U. T. System: Approval of the following changes to the U. T. System Professional Medical Liability Benefit Plan: (a) Premium rates effective September 1, 2005; (b) revisions to add U. T. System institutions and adoption of associated premiums; and (c) revisions to increase coverage for certain out-of-state externships and adoption of associated premiums	1:40 p.m. Action <i>Dr. Shine</i> <i>Mr. Burgdorf</i>	Action	66
3. U. T. System Board of Regents: Amendment of Regents' <i>Rules and Regulations</i>, Series 31007, regarding tenure, to allow U. T. Health Center - Tyler to offer term appointments for faculty	1:50 p.m. Action <i>President Calhoun</i>	Action	72
4. U. T. Health Center - Tyler: Authorization to acquire approximately 21.38 acres of land and improvements located at 3402 Old Omen Road, Tyler, Smith County, Texas, from Tyler Area Senior Citizens Association (TASCA) at fair market value as established by independent appraisals, for extension of campus programs and resolution regarding parity debt	1:55 p.m. Action <i>President Calhoun</i> <i>Ms. Mayne</i>	Action	74
5. U. T. Southwestern Medical Center - Dallas: Approval of a Doctor in Physical Therapy (DPT) degree program	2:05 p.m. Action <i>President Wildenthal</i>	Action	77
6. U. T. M. D. Anderson Cancer Center and U. T. Health Science Center - Houston: Authorization to negotiate and enter into an economic development agreement with the State of Texas for creation of the Center for Advanced Biomedical Imaging	2:10 p.m. Action <i>Dr. Shine</i>	Action	79

	Committee Meeting	Board Meeting	Page
7. U. T. Health Science Center - San Antonio: Discussion of compact priorities	2:15 p.m. Report <i>President Cigarroa</i> <i>Dr. Shine</i>	Not on Agenda	83
Adjourn	2:30 p.m.		

1. **U. T. System: Quarterly report on health issues by Executive Vice Chancellor Shine**

REPORT

Dr. Shine will report on health matters of interest to the U. T. System. This is a quarterly update to the Health Affairs Committee of the U. T. System Board of Regents.

2. **U. T. System: Approval of the following changes to the U. T. System Professional Medical Liability Benefit Plan: (a) Premium rates effective September 1, 2005; (b) revisions to add U. T. System institutions and adoption of associated premiums; and (c) revisions to increase coverage for certain out-of-state externships and adoption of associated premiums**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor and General Counsel that

- a. faculty and resident participant premium rates for Fiscal Year 2006 for The University of Texas System Professional Medical Liability Benefit Plan (Plan) be unchanged from the rates for Fiscal Year 2005 and that no portion of reserves from the Plan be returned to the participating U. T. System institutions. The current and recommended premium rates are set forth in Exhibits 1 and 2 on Pages 71.1 - 71.3.
- b. Article II of the Plan be amended as shown on Page 67 in congressional style to provide coverage to U. T. System institutions to be effective immediately and to apply retroactively to liability claims filed after September 1, 2003, and that proposed premium rates be adopted for the increased coverage shown in Exhibit 3 on Page 71.4; and
- c. Article VII of the Plan be amended as shown on Page 68 in congressional style to provide coverage to U. T. medical students who are pursuing clinical externships outside of Texas effective September 1, 2005, and that proposed premium rates be adopted for the increased coverage as shown in Exhibits 4 and 5 on Pages 71.5 - 71.6.

**THE UNIVERSITY OF TEXAS SYSTEM PROFESSIONAL
MEDICAL LIABILITY BENEFIT PLAN**

. . .

**ARTICLE II
DEFINITIONS**

Unless otherwise required by the context, the following definitions shall control:

A. ***Plan Participant*** shall mean:

1. Staff physicians and dentists who are medical doctors, oral surgeons, oral pathologists, dentists, doctors of osteopathy, or podiatrists appointed to the full-time faculty of a medical or dental school or hospital of the System, medical doctors employed in health services at and by a general academic institution of the System;
2. Residents and fellows enrolled in a residency program or fellowship at a System medical or dental school who are duly licensed, credentialed, and registered to practice their profession;
3. Medical doctors, oral surgeons, oral pathologists, dentists, doctors of osteopathy, and podiatrists appointed to the faculty of a medical school or hospital of the System on a part-time or volunteer basis, and who either devote their total professional service to such appointments or provide services to patients by assignment from the department chairman. For purposes of the Plan, such persons are "Plan Participants" only when providing services to patients in conjunction with supervision of medical or dental students or residents by assignment from the department chairman and shall become Participants in the Plan only as provided in Article IV, Section 2; ~~and~~
4. Medical or dental students of a medical or dental school of the System and only when participating (with prior approval of such medical or dental school) in a patient-care program of a duly accredited medical or dental school under the direct supervision of a faculty member of the school conducting such program; and
5. System institutions against which a liability claim, as that term is defined in Article II. B. below, is made that arises from the treatment or lack of treatment by a Plan Participant in 1-4 above.

B. ***Liability Claim*** means a claim, lawsuit or cause of action based upon treatment or lack of treatment within the United States of America, its territories or possessions, or Canada that departs from accepted standards of medical or

dental care which proximately results in injury to or death of a patient, whether the claim or cause of action sounds in tort or contract, subject to the exclusions described in Article V, Section 4, below.

...

ARTICLE VII LIMITS OF LIABILITY

...

Limits of Liability Schedule

The following limits shall apply unless lower liability limits are set by law, in which case the lower limits shall apply:

Staff Physician - \$500,000.00 per Liability Claim (up to \$1,500,000.00 for all Liability Claims during any one enrollment period)

Resident and Fellows - \$100,000.00 per Liability Claim (up to \$300,000.00 for all Liability Claims during any one enrollment period)

Medical or Dental Student - \$25,000.00 per Liability Claim (up to \$75,000.00 for all Liability Claims during any one enrollment period); upon approval by the Plan Administrator or a delegate, \$1,000,000.00 per Liability Claim (up to \$3,000,000.00 for all Liability Claims during any one enrollment period) for participation in an "away" or off-site experience outside of Texas sanctioned by the U. T. institution and not exceeding three months in duration during any one enrollment period

Annual Aggregate - \$30,000,000.00 for all Liability Claims for all Participants during any one Plan year

Per Claim Limitation - Plan liability shall be limited to \$2,000,000.00 per claim regardless of the number of the claimants or Plan Participants involved in an incident.

.....

BACKGROUND INFORMATION

Authority for the establishment of a self-insurance program to indemnify U. T. System physicians, dentists, and medical students was granted to the Board of Regents by Senate Bill 391, Acts of the 65th Legislature, effective March 10, 1977 (later codified as *Texas Education Code* Section 59.01 *et seq.*). The Plan for Professional Medical Malpractice Self-Insurance was originally approved by the Board of Regents on

April 15, 1977. The Plan has been amended several times, with the most recent amendments on August 12, 2004, to add coverage for physicians and other Plan Participants in actions before state licensing boards. The Plan is funded primarily by the payment of premiums from the Faculty Physicians Practice Plans of the health institutions of the U. T. System.

Actuaries from Tillinghast-Towers Perrin (Tillinghast), the nation's largest medical liability insurance plan actuarial firm, have reviewed the Plan's 28-year experience and recommended experience-based premiums related to the claims loss of each U. T. System institution. They assisted in the preparation of premium recommendations for all items below:

- a. The 78th Texas Legislature passed tort reform measures that limit the liability for state employed physicians and dentists to \$100,000, and Tillinghast was directed to incorporate that statutory change immediately into its premium calculation (effective Fiscal Year 2004). The basic liability limits of \$500,000 per claim for staff physicians and \$100,000 for residents continue to be provided, although statutory changes limit liability to \$100,000 per physician. As of August 31, 2004, there were 5,550 staff and resident physicians of the U. T. System covered by the Plan. In addition, approximately 3,332 medical students are enrolled in the Plan by paying \$25 a year for \$25,000 in coverage. The current and recommended premium rates are set forth in Exhibits 1 and 2.

The rates proposed for Fiscal Year 2006 are unchanged because the trend in losses declined slightly from last year's projections, the adequacy of the asset balance, and the uncertainty resulting from recent law changes. The Plan is adequately funded with assets of \$143.3 million, as of April 30, 2005, and liabilities of approximately \$90 million, allowing reserves to be maintained in accordance with industry standards.

- b. The tort reform legislation (House Bill 4, Acts of the 78th Legislature, effective September 1, 2003) made numerous statutory changes affecting health care liability claims. A significant change affected governmental entities and their employees, including The University of Texas System. A provision contained in the tort reform legislation was designed to discourage plaintiffs from suing both the individual U. T. System physician and the institution, forcing an election of remedies and shifting liability to the institutions (Section 11.05, Chapter 204, Acts of the 78th Legislature, Regular Session, 2003, revising Section 101.106, *Texas Civil Practice & Remedies Code*). Under the election of remedies provisions
 - 1) a plaintiff must make an irrevocable election to sue either the employee or the governmental unit; the law then bars suit against the other;

- 2) if a plaintiff fails to make the election and sues both an employee and the governmental unit, the court must immediately dismiss the individual; and
- 3) if suit is brought against an individual employee but could have been brought under the Tort Claims Act against the governmental unit, the suit is considered to be against the employee in the employee's official capacity only, and the court must dismiss the suit against the individual employee unless the plaintiff's pleadings are amended to substitute the governmental unit for the employee.

Under the new law, personal liability for public servants, now including physicians, is limited to \$100,000. Institutional liability is capped at \$250,000.

The shifting liability resulting from these election of remedies provisions has already left U. T. System health institutions (and some academic institutions) facing financial burdens from medical liability claims. There is no existing mechanism for the institutions to predict or to bear the costs of judgment, settlements, or litigation expenses related to medical liability claims. Because there is general statutory authority for governmental units to establish a self-insurance fund under *Texas Government Code* Section 2259.031 and because the existing Professional Medical Liability Benefit Plan is financially sound, it is recommended that U. T. System institutions be included as Plan Participants to establish a predictable method for bearing the costs of health care liability claims, regardless of whether the individual physician or the institution is the defendant.

- c. Currently, U. T. medical students are indemnified for \$25,000 per Liability Claim and up to \$75,000 for all Liability Claims during any one enrollment period. This coverage limitation has been inadequate for students interested in pursuing clinical experiences outside of Texas which generally occur during the fourth year of medical school. Most facilities in other states require proof of coverage of at least \$1,000,000 per claim and \$3,000,000 aggregate, according to actuary Mr. James Hurley of Tillinghast as well as the Association of American Medical College/Group on Students Affairs Survey Regarding Student Healthcare and Insurance (2003). The Executive Vice Chancellor for Health Affairs and the Vice Chancellor and General Counsel find that other options available for U. T. students are not viable including: 1) acceptance of the current U. T. limits by the "away" institution, 2) "gap coverage" made available by the "away" institution, or 3) student-purchased commercial coverage. According to one U. T. health institution, "Most visited campuses no longer offer 'gap' coverage, and the list of campuses accepting the U. T. System coverage has shrunk." Commercial insurance is not viable because it has become

too costly with costs ranging from \$1,000-\$5,000 per year while the availability of such coverage has become increasingly limited. Many U. T. medical students are deprived of clinical experiences at institutions outside of Texas which they may be considering for residency because of the current limitation in coverage.

Exhibit 4, Class Code (10) on Page 71.5 shows the proposed annual average premium rates for coverage in five groups. The rates vary among these groups of states and among counties of some states based on historical industry data.

The University of Texas System Professional Medical Liability Benefit Plan
Summary of Rates by Risk Class by Institution

Risk Class 1

Institution	Current & Recommended Rates	
	Staff	Resident
UT Cancer Center	\$1,025	\$959
UT SMC Dallas	1,019	953
UTMB Galveston	1,675	1,567
UT HSC Houston	1,624	1,519
UT HSC San Antonio	1,214	1,137
UT HC Tyler	1,452	1,358
UT Austin	1,214	1,137
UT Arlington	1,214	1,137

Risk Class 2

Institution	Current & Recommended Rates	
	Staff	Resident
UT Cancer Center	\$1,603	\$1,500
UT SMC Dallas	1,594	1,491
UTMB Galveston	2,620	2,453
UT HSC Houston	2,541	2,378
UT HSC San Antonio	1,899	1,780
UT HC Tyler	2,272	2,126
UT Austin	1,899	1,780
UT Arlington	1,899	1,780

Risk Class 3

Institution	Current & Recommended Rates	
	Staff	Resident
UT Cancer Center	\$2,562	\$2,397
UT SMC Dallas	2,546	2,382
UTMB Galveston	4,185	3,918
UT HSC Houston	4,059	3,799
UT HSC San Antonio	3,034	2,843
UT HC Tyler	3,630	3,396
UT Austin	3,034	2,843
UT Arlington	3,034	2,843

Risk Class 4

Institution	Current & Recommended Rates	
	Staff	Resident
UT Cancer Center	\$4,765	\$4,458
UT SMC Dallas	4,735	4,430
UTMB Galveston	7,785	7,287
UT HSC Houston	7,550	7,066
UT HSC San Antonio	5,642	5,288
UT HC Tyler	6,750	6,317
UT Austin	5,642	5,288
UT Arlington	5,642	5,288

For easier presentation, the premium rates shown here have been rounded by Tillinghast-Towers Perrin, the Plan actuary.
 Office of General Counsel 7/25/05

The University of Texas System Professional Medical Liability Benefit Plan
Summary of Rates by Risk Class by Institution

Risk Class 5

Institution	Current & Recommended Rates	
	Staff	Resident
UT Cancer Center	\$7,019	\$6,568
UT SMC Dallas	6,976	6,526
UTMB Galveston	11,468	10,735
UT HSC Houston	11,120	10,408
UT HSC San Antonio	8,312	7,791
UT HC Tyler	9,943	9,306
UT Austin	8,312	7,791
UT Arlington	8,312	7,791

All Risk Classes Combined

Institution	Current & Recommended Rates	
	Staff	Resident
UT Cancer Center	\$2,464	\$2,974
UT SMC Dallas	2,792	2,538
UTMB Galveston	4,546	4,274
UT HSC Houston	4,290	9,206
UT HSC San Antonio	2,867	3,127
UT HC Tyler	2,809	4,260
UT Austin	NA	NA
UT Arlington	NA	NA
Total/Weighted Average	3,252	3,370

For easier presentation, the premium rates shown here have been rounded by Tillinghast-Towers Perrin, the Plan actuary.
 Office of General Counsel 7/25/05

The University of Texas System Professional Medical Liability Benefit Plan
Dental Rates by Institution

Institution	Current & Recommended Rates	
	Staff	Residents
<u>Dentist - NOC (Risk Class A)</u>		
UT Cancer Center	\$358	\$335
UT SMC Dallas	357	333
UTMB Galveston	586	548
UT HSC Houston	568	532
UT HSC San Antonio	425	398
UT HC Tyler	508	475
UT Austin	425	398
UT Arlington	425	398
<u>Dentist - Oral Surgery (Risk Class B)</u>		
UT Cancer Center	\$1,603	\$1,500
UT SMC Dallas	1,594	1,491
UTMB Galveston	2,620	2,453
UT HSC Houston	2,541	2,378
UT HSC San Antonio	1,899	1,780
UT HC Tyler	2,272	2,126
UT Austin	1,899	1,780
UT Arlington	1,899	1,780

For easier presentation, the premium rates show here have been rounded by Tillinghast-Towers Perrin, the Plan actuary.
Office of General Counsel 7/25/05

Institution Premium Charge

	<u>Estimated 2004/2005 Physician Premium</u>	<u>Indicated Institution Premium*</u>
UT Cancer Center	\$2,182,539	\$100,000
UT SMC Dallas	3,705,087	100,000
UTMB Galveston	4,873,702	100,000
UT HSC Houston	3,982,982	100,000
UT HSC San Antonio	3,343,273	100,000
UT HC Tyler	220,379	11,019
UT Arlington	6,776	339
UT San Antonio	3,177	159
UT Austin	<u>32,249</u>	<u>1,612</u>
Total	\$18,350,164	\$513,129

*Minimum of 5% of 2004/2005 physician premium or \$100,000.

University of Texas System Self-Insurance Plan
 Medical Professional Liability
 Annual Occurrence Rates
 \$1M Limits

Class Code	Class Relativity	Occurrence Rates by Group					Staff and Resident FTE
		Group A	Group B	Group C	Group D	Group E	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	1.000	\$380	\$506	\$658	\$911	\$1,772	1,945
2	1.565	594	792	1,030	1,426	2,773	941
3	2.500	949	1,266	1,645	2,278	4,430	667
4	4.650	1,766	2,354	3,060	4,237	8,239	987
5	6.850	2,601	3,468	4,508	6,242	12,137	539
(9)	Group Relativity	0.75	1.00	1.30	1.80	3.50	5,080
(10)	Selected Avg Rate	\$999	\$1,332	\$1,732	\$2,398	\$4,664	

Notes:

(2) Based on UT's current rates.

(3) - (7) Indicated Occurrence Rate from Exhibit 3 x Respective Class Relativity x Respective Group Relativity.

(8) Based on UT's staff and resident exposures for accident year ending 8/31/2004.

(9) Judgmentally selected. See table below for states included in each group.

(10) Weighted average of columns (3) through (7) and (8).

** States included in

Group A	Group B	Group C	Group D	Group E
Alabama	Alaska	Arizona	California-3	Florida-1
Arkansas	California-1	California-2	DC	Florida-3
Colorado	Connecticut	Hawaii	Florida-2	Michigan-1
Georgia	Delaware	Illinois-2	Illinois-1	New York-0
Idaho	Illinois-4	Illinois-3	Michigan-2	New York-1
Indiana	Kansas	Louisiana	Michigan-3	New York-2
Iowa	Maryland-2	Missouri	Nevada-1	
Kentucky	Maryland-3	Nevada-2	New York-3	
Maine	New Hampshire	Ohio-2	New York-4	
Maryland-1	New Jersey	Oklahoma	Ohio-4	
Massachusetts	New Mexico	Pennsylvania-1	Rhode Island	
Minnesota	North Dakota	Pennsylvania-4	Texas-1	
Mississippi	Ohio-3	Texas-2	West Virginia	
Montana	Pennsylvania-5	Texas-4		
Nebraska	Texas-3	Wyoming		
North Carolina	Utah			
Ohio-1	Virginia-1			
Oregon	Virginia-2			
Pennsylvania-2				
Pennsylvania-3				
South Carolina				
South Dakota				
Tennessee				
Vermont				
Virginia-3				
Virginia-4				
Washington				
Wisconsin				

** See Exhibit 2 for Counties within State Territories.

Also several states have special funds related to medical malpractice. These are: Indiana, Kansas, Louisiana, Nebraska, New Mexico, Pennsylvania, South Carolina and Wisconsin. Most of these have required charges payable to the Fund. UT will need to check with the Facility that the students are working in to determine steps to satisfy Fund requirements.

University of Texas System Self-Insurance Plan
 Medical Professional Liability
 State Territories

State	Territory	Territory Description
California	1	Rest of State
	2	San Diego, Kern, Santa Barbara, Verntura
	3	LA, Orange, San Bernardino
Florida	1	Dade, Broward
	2	Rest of State
	3	Palm Beach
Illinois	1	Cook, McHenry, Madison, St. Clair, Will
	2	DuPage, Kane, Lake
	3	Champaign, Jackson, Macon, Sagamon, Vermilion
	4	Rest of State
Maryland	1	Rest of State
	2	Prince George, Montgomery, Howard, Anne Arundel
	3	City of Baltimore and County
Michigan	1	Wayne, Oakland, Macomb
	2	Bay, Genesee, Hillsdale, Huron, Ingham, Jackson, Lapeer, Lenawee, Livingston, Monroe, Saginaw, St. Clair, Sanilac, Shiawassee, Tuscola, Washtenaw
	3	Rest of State
Nevada	1	Clark
	2	Rest of State
New York	0	Rest of State
	1	New York, Orange, Ulster, Westchester
	2	Bronx, Kings, Queens, Richard, Rockmond, Sullivan
	3	Nassau, Suffolk
Ohio	4	Columbia, Dutchess, Greene, Putnam
	1	Adams, Brown, Carroll, Champaign, Clermont, Clinton, Coshocton, Crawford, Darke, Delaware, Fairfield, Fulton, Guernsey, Hamilton, Hardin, Harrison, Henry, Highland, Hocking, Holmes, Jackson, Knox, Lawrence, Logan, Madison, Meigs, Mercer, Monroe, Morgan, Morrow, Noble, Paulding, Perry, Pickaway, Pike, Preble, Putnam, Scioto, Shelby, Tuscarawas, Union, Van Wert, Vinton, Warren, Washington, Wyandot
	2	Cuyahoga, Geauga, Huron, Lake, Lorain, Mahoning, Marion, Medina, Stark, Summit
	3	Allen, Ashland, Athens, Auglaize, Belmont, Butler, Clark, Defiance, Erie, Fayette, Franklin, Gallia, Greene, Hancock, Jefferson, Licking, Lucas, Miami, Montgomery, Muskingum, Ottawa, Ross, Sandusky, Seneca, Wayne, Williams, Wood
4	Ashtabula, Columbiana, Portage, Richland, Trumbull	
Pennsylvania	1	Philadelphia, Montgomery, Delaware
	2	Rest of State
	3	Allegheny
	4	Bucks, Schuylkill
	5	Chester, Lackawanna, Mercer, Monroe, Westmoreland
Texas	1	Brazoria, Cameron, Fort Bend, Galveston, Harris, Hidalgo, Jefferson, Montgomery, Orange
	2	Collin, Dallas, El Paso, Grayson, Kaufman, Tarrant
	3	Rest of State
	4	Bee, Brewster, Brooks, Crane, Crockett, Culberson, Dimmit, Duvall, Ector, Glasscock, Hudspeth, Jeff Davis, Jim Hogg, Jim Wells, Kennedy, Kinney, Kleberg, Lasalle, Live Oak, Loving, Maverick, McMullen, Midland, Pecos, Presidio, Reagan, Reeves, San Patricio, Starr, Terrell, Upton, Val Verde, Ward, Webb, Willacy, Winkler, Zapata
Virginia	1	Arlington, Fairfax, Fauquier, Loudoun Prince William
	2	Gloucester, Isle of Wright, James City, Surry, York
	3	Rest of State
	4	Charles City, Chesterfield, Dinwiddle, Goochland, Henrico, Hanover New Kent, Powhatan, Prince George

3. **U. T. System Board of Regents: Amendment of Regents' Rules and Regulations, Series 31007, regarding tenure, to allow U. T. Health Center - Tyler to offer term appointments for faculty**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 31007 be amended as set forth below in congressional style to allow U. T. Health Center - Tyler to offer seven-year term appointments for faculty:

2. Rule and Regulation

Sec. 1 Granting of Tenure. Tenure denotes a status of continuing appointment as a member of the faculty at an institution of The University of Texas System. Academic titles in which faculty members can hold tenure are listed in Series 31001, Number 2, Section 2.1 of the Regents' *Rules and Regulations*. Tenure may be granted at the time of appointment to any of such academic ranks, or tenure may be withheld pending satisfactory completion of a probationary period of faculty service. Such tenure status shall not be applicable to the faculty of The University of Texas M. D. Anderson Cancer Center or The University of Texas Health Center at Tyler.

Sec. 2 Seven-Year Term Appointment. The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Center at Tyler are is authorized to award a seven-year term appointment that will denote a status of continuing appointment at that institution as a member of the faculty for a period of seven years. Only members of the faculty with academic titles of Professor, Associate Professor, or Assistant Professor may be granted a seven-year term appointment. A seven-year term appointment may be granted at the time of appointment to any of such academic rank or may be withheld pending satisfactory completion of a probationary period of faculty service. No component institution may adopt or implement a seven-year term appointment policy except The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Center at Tyler.

...

Sec. 5. Probationary Service. . . .

5.1 Calculation of Service. For purposes of calculating the period of probationary service, an "academic year" shall be the period from September 1 through the following August 31.

. . .

(b) Each institution with tenured faculty will establish and appropriately communicate a policy for the extension of the maximum probationary period and include the policy in the institutional *Handbook of Operating Procedures* following the standard review and approval process. In the case of The ~~the~~ University of Texas M. D. Anderson Cancer Center and The University of Texas Health Center at Tyler, the institutions may establish a policy that allows the extension of a term-tenure appointment consistent with these guidelines and the term-tenure policy. Institutional policies are to be consistent with the following guidelines:

. . . .

BACKGROUND INFORMATION

The proposed amendments to the Regents' *Rules and Regulations*, Series 31007 relating to tenure of faculty will permit U. T. Health Center - Tyler to offer seven-year term appointments. Currently, U. T. M. D. Anderson Cancer Center is the only institution that can offer seven-year term appointments.

With the passage of Senate Bill 276 during the 79th Texas Legislature, *Texas Education Code* Section 74.602 was amended to authorize U. T. Health Center - Tyler to offer degree programs and courses in allied health and related fields. The proposed amendment to authorize term tenure at U. T. Health Center - Tyler is necessary to implement the legislation, to recruit faculty, and to be competitive with other health institutions in the state.

4. **U. T. Health Center - Tyler: Authorization to acquire approximately 21.38 acres of land and improvements located at 3402 Old Omen Road, Tyler, Smith County, Texas, from Tyler Area Senior Citizens Association (TASCA) at fair market value as established by independent appraisals, for extension of campus programs and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Calhoun that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Health Center - Tyler, to

- a. purchase approximately 21.38 acres of land and improvements located at 3402 Old Omen Road, Tyler, Smith County, Texas, from Tyler Area Senior Citizens Association (TASCA) for \$2.6 million, plus an agreement permitting TASCA limited use of the improvements for 15 years after the closing, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate;
- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;

- U. T. Health Center - Tyler, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$2,000,000; and
- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

The subject property, owned by TASCAs, consists of a 20,726 square foot multipurpose building and 21.38 acres of land. The building includes office space, meeting rooms, a commercial kitchen, and a ballroom. U. T. Health Center - Tyler wishes to acquire the land, improvements, and most of the furnishings to use for programs of its Center for Healthy Aging, other educational and outreach programs, research, meetings, and conferences.

As part of the consideration for the purchase of the property, U. T. Health Center - Tyler will enter into an agreement with TASCAs pursuant to which TASCAs will be permitted limited use of the improvements for a 15-year period. Also as a part of the overall transaction, TASCAs has agreed to establish an endowment in the amount of \$370,000 to benefit the Center for Healthy Aging and to support the operational costs of the improvements on the property.

U. T. Health Center - Tyler has agreed to transfer the unimproved acreage to U. T. Tyler, subject to Board of Regents' approval to be sought at a subsequent meeting of the Board. The exact acreage and price have yet to be determined. Additionally, and also subject to Board of Regents' approval, the two institutions have agreed that at the end of 15 years following the acquisition of the property by U. T. Health Center - Tyler, the institution will transfer the improved portion of the property to U. T. Tyler at a price to be determined.

To fund the purchase, U. T. Health Center - Tyler will use local institutional funds and U. T. System Revenue Financing System debt. The terms and conditions of the agreement to purchase the TASCAs property are set out on the following page.

Transaction Summary

Institution: U. T. Health Center - Tyler

Type of Transaction: Purchase

Total Area: 21.38 acres

Improvements: 20,726 square foot single story, masonry veneer multi-purpose structure, including offices, meeting rooms, a commercial kitchen, and a ballroom

Location: 3402 Old Omen Road, Tyler, Smith County, Texas; see attached map on Page 76.1

Seller: Tyler Area Senior Citizens Association

Purchase Price: \$2,600,000, plus an agreement permitting the seller limited use of the improvements for 15 years

Appraised Value: \$2,850,000 (Appraisal Associates, December 8, 2004)
\$2,760,000 (Kennedy Holtkamp Thompson, June 9, 2005)

Source of Funds: \$2,000,000 from Revenue Financing System debt, and the remainder from local funds

Intended Use of Property: Programs of the U. T. Health Center - Tyler's Center for Healthy Aging and other institutional uses



U.T. TYLER
CAMPUS

UNIVERSITY

OLD WOMEN

SUBJECT PROPERTY

Tyler Area Senior Citizens Association

1444

1442

1441

76.1

5. **U. T. Southwestern Medical Center - Dallas: Approval of a Doctor in Physical Therapy (DPT) degree program**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Wildenthal that authorization be granted to establish a Doctor of Physical Therapy (DPT) degree program at U. T. Southwestern Medical Center - Dallas and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. Southwestern Medical Center - Dallas will be amended to reflect this action.

BACKGROUND INFORMATION

Program Description

This proposal is in accordance with the national trend to recognize the increasing complexity and science-based practice of physical therapy, by moving the entry level of physical therapist education from the current Master's degree to the clinical doctorate. As of January 2005, there are 209 accredited physical therapist educational programs in the United States; 117 of these programs offer the Doctor in Physical Therapy (DPT) as their entry-level degree and four new DPT programs are in the process of development. The accrediting body of the American Physical Therapy Association (APTA) anticipates 95.2% of the current physical therapy programs will offer an entry-level DPT degree by 2010. Given the pace of change to degreed physical therapy programs across the country, it is essential that the schools in Texas transition to an entry-level DPT degree as quickly as possible.

The proposed program will be a clinical/professional degree, not an academic/research degree. It will replace the current Master of Physical Therapy (MPT) degree which is being discontinued. The objectives of the DPT program support graduating students who are competent generalist practitioners. DPT graduates will differ from Master's-trained students in that DPT graduates will be prepared to practice autonomously in underserved areas. The Texas Board of Physical Therapy Examiners adopted Rules under the authority of the *Texas Occupations Code*, Chapter 453, to allow a physical therapist to evaluate a patient without a physician referral. Since they can serve as the entry point of health care and are responsible for referring their patients to other health care providers as needed, the graduates must be able to accurately examine, evaluate, diagnose, prognose, and intervene in the management of impairments, functional limitation, and disabilities of the cardiopulmonary, musculoskeletal, neuromuscular, and integumentary systems.

Need and Student Demand

The U.S. Department of Labor, Bureau of Labor Statistics lists physical therapists as one of the fastest growing occupations for the Years 2002 to 2012. This data projects a 35% growth rate. The demographics of Texas further support the need for more and better trained professionals in the physical therapy field. The national average for physical therapists is 41 per 100,000 population. The statewide average for Texas is 36 per 100,000 population which ranks Texas 30th out of the 50 states.

There are currently 10 physical therapist educational programs in Texas: eight are in public institutions; one is at a private institution, Hardin Simmons University; and a program is offered by the U.S. Army at Fort Sam Houston in connection with Baylor University. Both Hardin Simmons University and the U.S. Army-Baylor program provide the DPT as the entry-level degree. At U. T. Southwestern Medical Center - Dallas, the number of qualified applicants for each physical therapy class has risen steadily over the past five years with this year yielding 200 students who will compete for 40 positions within the program. In the past two years, U. T. Southwestern Medical Center - Dallas lost approximately 10% of qualified applicants who opted to go out of state to attend a program that offers the DPT degree.

Program Quality

The DPT degree will be administered through the Department of Physical Therapy in the Allied Health Sciences School. Each student enrolled in the DPT curriculum will be assigned an advisor from the academic faculty. Twenty-two new courses and seven with an enriched curriculum are being proposed for the DPT curriculum for a total of 94 semester credit hours. Students will also need to successfully complete three clinical experiences to graduate.

The current faculty consists of 9.5 full-time employees. Five of the full-time faculty members hold a Ph.D. in associated areas; the others hold a MPT with a special certification in their areas of expertise. Any new faculty recruited will have a terminal degree at the doctoral level. Recognized expert clinicians from the community have been granted adjunct faculty positions with the department in anticipation of needing their assistance in the proposed curriculum by providing small group instruction in laboratory sessions.

Program Cost

The implementation of the proposed DPT will require no new state funds. The proposed DPT program will replace the MPT program so all funding sources associated with the previously offered MPT program will be used to support the new DPT program. In anticipation of the increased demand for faculty resources, a new full-time faculty position with a starting salary of \$65,000 will be added in Fiscal Year 2006-2007.

If the proposal is approved, there will be a need for increased facility resources, specifically teaching laboratories, but not until the third year the DPT is offered (2009-2010). Year three will have approximately 120 students (40 students per class) enrolled in the program, requiring the need for additional laboratory space. Therefore, there will be a one-time renovation cost of \$60,000 to convert existing physical therapy space into teaching laboratories.

Funding for the additional costs (one faculty position and renovation) will come from revenue generated by the clinical practice. The clinical practice not only affords the students an opportunity to practice clinical skills and decision-making but also provides clinical revenue that can support the academic program.

6. **U. T. M. D. Anderson Cancer Center and U. T. Health Science Center - Houston: Authorization to negotiate and enter into an economic development agreement with the State of Texas for creation of the Center for Advanced Biomedical Imaging**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations and Policy, President Mendelsohn, and President Willerson that authorization be given to the Chancellor to negotiate the terms of and execute any and all documents necessary to enter into an economic development agreement, containing the significant provisions outlined below, with the State of Texas, acting by and through the Office of the Governor, Economic Development and Tourism (State) to create the Center for Advanced Biomedical Imaging ("the Center") in The University of Texas Research Park.

BACKGROUND INFORMATION

The University of Texas Health Science Center at Houston ("UTHSC-H") and The University of Texas M. D. Anderson Cancer Center ("UTMDACC") are committed to the development of medical technology and medical diagnostic procedures that will aid in the diagnosis and treatment of heart disease, cancer, and other diseases. General Electric Medical Systems (GEMS) is a global leader in medical information and technology and a manufacturer of advanced radiological and cardiological diagnostic imaging equipment, patient monitoring equipment, and clinical information systems used in hospitals and healthcare facilities worldwide.

UTHSC-H and UTMDACC have entered into a memorandum of understanding with GEMS which establishes and provides for contribution by GEMS to the equipment and operation of the Center in The University of Texas Research Park adjacent to the Texas

Medical Center in Houston, Texas. Integral to this new Center will be research programs in the areas of in vitro and in vivo diagnostics including molecular imaging, advanced imaging applications, and instrumentation development and optimization focused on delivering the "next generation" imaging applications, technologies, and treatments to healthcare.

The U. T. Institutions' interests will be served through enhanced research productivity resulting from on-site access to technology and technical expertise, tools, and support. This productivity can be measured through increased scientific discovery and collaboration, leveraged grant funding, jobs creation, and royalty revenues from commercialized technologies. GEMS' interests will be served through the more rapid development of new product applications that meet the needs of its customers and their patients, and through the development of new technologies that keep it in a technology leadership position. Moreover, patients will benefit through the optimization of clinical tools as well as the timely utilization of the new state-of-the-art applications. Finally, the newly created Center involving GEMS, UTMDACC, and UTHSC-H will provide promising opportunities for the advancement of healthcare delivery, jobs creation, and technology commercialization in the State of Texas.

The significant provisions of the proposed arrangement are summarized below:

I. TEXAS ENTERPRISE FUND COMMITMENT

The Governor, Lieutenant Governor, and Speaker of the House have approved an allocation from the state to The University of Texas System ("U. T. System") in the total amount of \$25,000,000 in support of the Center, to be disbursed according to the following schedule:

- (i) \$15,000,000 as soon as practicable following the execution of the Agreement; and
- (ii) \$10,000,000 as soon as practicable following U. T. System providing the state with sufficient evidence that the construction of the Center has commenced.

II. U. T. SYSTEM OBLIGATIONS

U. T. System will take all steps necessary to ensure that GEMS participation in the project is secured for the full term of the Agreement and, in addition to the funding provided by the state, U. T. System (through UTHSC-H and UTMDACC) will contribute \$25,000,000 for construction and equipment costs for the project.

U. T. System (through UTHSC-H and UTMDACC) commits to meeting a "Job Target" of creating and maintaining 2,252 new full-time employment positions with an average annual gross compensation of \$70,000 by December 31, 2011.

Beginning in January 2008, U. T. System must deliver to the Economic Development and Tourism Division of the Governor's Office (OOGEDT), by January 31 of each year, a compliance verification signed by a duly authorized representative of U. T. System that certifies the number of and generally describes the new employment positions created during the year just ended, and certifies the number of total employment positions existing as of December 31 of the year just ended.

State Funding Subject to Recovery (Claw-Back)

To ensure that the jobs are created and that they are permanent jobs at a salary level that meets the state's expectations in making the grant, funds granted under this agreement must be returned to the state with interest according to a schedule set out in the agreement if the jobs are not created, or if they are fewer in number than the agreed upon job target.

To secure payment for all amounts that may be owed to OOGEDT; U. T. System, UTMDACC, and UTHSC-H grant to OOGEDT a lien against and security interest in any revenues received by U. T. System through UTMDACC and UTHSC-H for commercialization of any technologies that result from activities within the Center.

U. T. System's Additional Obligations

U. T. System agrees to maintain detailed and accurate records, and other supporting data that establish satisfaction of its obligations, and to furnish OOGEDT a copy of UTHSC-H's and UTMDACC's annual financial statements. Upon request from OOGEDT, UTHSC-H and UTMDACC will allow OOGEDT or its designee to audit UTHSC-H's and UTMDACC's financial records related to the expenditure of the funds and the satisfaction of the U. T. System obligations.

III. GENERAL ELECTRIC MEDICAL SYSTEMS COMMITMENT

UTMDACC, UTHSC-H and GEMS have agreed in principle to partner in the Center that will house several biomedical imaging and engineering programs that are in development at UTMDACC and UTHSC-H, and is intended to form the foundation for a long-term, collaborative relationship between GEMS, UTMDACC, and UTHSC-H.

GEMS is committed to providing the following equipment for the Center:

- 1) 3T MR System
- 2) CT Multi Slice system
- 3) Cyclotron and Radiopharmaceutical equipment

In addition to the equipment listed above, GEMS will also provide a state-of-the-art PET/CT system, as well as software upgrades on this system. The U. T. institutions will

purchase service contracts for all units at the regular UTMDACC rates. This GEMS investment including equipment and upgrade (at list price), and annual scientist support could total over \$21,400,000 over a 5-year period, and \$30,600,000 over a 10-year period.

The parties intend to conclude definitive, written collaborative research, option, license, sponsored research, and equipment transfer agreements on terms and conditions that are agreed to by the U. T. institutions and GEMS. Under these agreements, GEMS will have the opportunity to obtain certain worldwide license rights to use technology and intellectual property arising from research and activities at the Center.

The GEMS support proposal includes the list of equipment identified below along with personnel support, a financing proposal, and options to upgrade the equipment during the 10-year term.

1. Estimated List Price Value of GEMS' support for the Center:

Equipment

- 3T Whole Body
- Cyclotron dual beam PETTrace
- TRACERlab MXfdg Radiosynthesis unit
- TRACERlab FXn Radiosynthesis unit
- PET/CT (16 slice)
- CT VCT (64 slice)

Total List Price of Equipment: \$12,400,000

Yearly service contracts, beginning in year two, would be paid separately by the U. T. institutions for all equipment identified in this proposal but the U. T. institutions' annual liability under such contracts will not exceed \$600,000 and any cost above the annual limit will be borne by GEMS.

Should, during the term of the collaborative relationship, the U. T. institutions request additional GEMS diagnostic equipment for the purpose of conducting research at the U. T. Research Park, the U. T. institutions and GEMS will, in good faith, negotiate the terms and conditions for providing such incremental equipment to the U. T. institutions.

2. Additional support offered by GEMS includes the following:

- On-site scientist support, with a total value of \$4,000,000 and \$8,000,000 for 5 and 10 years, respectively.

- Application hardware and software upgrade at estimated list price, valued at \$1,000,000 per year, with the total value of \$5,000,000 and \$10,000,000 for 5 and 10 years, respectively. This excludes magnet swaps or full system replacements.

Coincident with the agreement relating to formation of the Center, the parties intend to conclude a definitive, written option and license agreement that provides GEMS the opportunity to obtain worldwide license rights to use technology and intellectual property arising from activities at the Center.

7. **U. T. Health Science Center - San Antonio: Discussion of compact priorities**

REPORT

President Cigarroa and Executive Vice Chancellor Shine will lead a discussion about compact priorities for U. T. Health Science Center - San Antonio as set out in the compact on Pages 83.1 - 83.23. Dr. Cigarroa's PowerPoint presentation is on Pages 83.24 - 83.44.

The University of Texas Health Science Center at San Antonio

**Compact with The University of Texas System
FY 2006 through FY 2007**

I. Introduction: Institution Mission and Goals

The primary goals of the University of Texas Health Science Center at San Antonio are to:

- *educate health care providers and scientists*
- *engage in biomedical and clinical research to improve the health of mankind*
- *provide state-of-the-art clinical care*
- *enhance community health awareness*
- *address health disparities**

Mission Statement

The mission of the University of Texas Health Science Center at San Antonio is to serve the needs of the citizens of Texas, the nation, and the world through programs committed to excellence and designed to:

- educate health professionals for San Antonio and the entire South Texas Community and for the State of Texas to provide the best possible health care, to apply state-of-the-art treatment modalities, and to continue to seek information fundamental to the prevention, diagnosis, and treatment of disease.
- play a major regional, national and international role as a leading biomedical education and research institution in the discovery of new knowledge and the search for answers to society's health care needs.
- be an integral part of the health care delivery system of San Antonio and the entire South Texas community, as well as an important component of the health care delivery system of the State of Texas and the nation.
- serve as a catalyst for stimulating the life science industry in South Texas, culminating in services and technology transfer that benefit local and state economies.
- offer continuing education programs and expertise for professional and lay communities.

Including a total of 1,494 full-time and part-time faculty; 3,186 staff members, and 2,837 students, all of whom are housed on six campuses, UTHSCSA is one of the six health science centers within the UT System. In keeping with its mission, UTHSCSA admits a diverse student body into five different professional schools including Allied Health Sciences, Dental, Biomedical Graduate Studies, Medical and Nursing.

II. Major Ongoing Short-Term and Long-Term Priorities and Initiatives

SHORT-TERM INITIATIVE: ENHANCEMENT OF EXCELLENCE IN EDUCATION

PRIORITY: #1

Goal 1.1- Develop and sustain the quality and capacity of the faculty and the student learning experience by establishing *the Academic Center for Excellence in Teaching (ACET)*. (Note: *The name of the teaching center has been changed. In prior versions of the Compact, it was referred to as the Center for Effective Learning and Teaching.*)

Objective:

- Create a center for learning and teaching to provide "umbrella" support for the five schools in order to ensure that they encourage intellectually rigorous teaching and scholarship in health care professional education that inspires students to become outstanding care providers and future academic leaders.

Strategies:

- Design the framework for the center including appointment of a director; identify the specific areas of focus, menu of programs, services to be sponsored, and methods to certify teaching expertise.
- Review and analyze the current programmatic instruction and methods of delivery.
- Review current methods of instruction for the various academic programs and evaluate the effectiveness of each method.
- Plan/implement course offerings, technical assistance, and a small grants program.
- Work with each school to create an individual strategy designed to enhance teaching and scholarship and to offer additional career enhancements for the faculty.

**Revisions to the Compact are presented in bold, italic type throughout the document.*

Resources:

- Designate 10% of funds from the newly approved tuition increase to create the center.
- Reallocate additional funds where appropriate.

Progress Measures:

- Progress report submitted annually by the director of the center including information regarding upward evaluation by clients, performance of students, and results of accreditation processes. **Progress: To date, Faculty Planning Committee for the Teaching Center completed a study of priorities for faculty and an action plan for implementation.**
- Timelines, developed by May 2005, detailing organization and implementation plans for specific activities of the center. **Progress: Pending finalization.**

Major Obstacles:

- Cultural change necessary to integrate researchers and clinicians.
- Availability of space in which to house the Center and its staff.

Goal 1.2- Faculty Recruitment & Retention

Objective:

- Retain and recruit a diverse faculty of exceptional quality for all schools.

Strategies relevant to all schools:

- Ensure that all searches for new faculty are competitive and nationwide.
- Decrease the difference between the mean faculty compensation at UTHSCSA and comparable figures for equivalent positions at peer schools.
- Provide the faculty with annual incentive payments that are merit based and tied to standards of performance in teaching, patient care, and research as articulated in the mission statement.
- Provide training opportunities for faculty in order to enhance teaching, clinical, and research skills.
- Develop specific strategies designed to increase funding for the HSC and to support recruitment of a diverse faculty.

Additional strategies:

- Provide merit based annual incentive payments tied to mission-based performance in teaching, patient care, and research. (Medicine)
- Recruit, in 12-months, at least one new faculty member who has NIH funding. (Nursing)
- Increase the number of 12-month faculty contracts in order to compete more effectively with other schools of nursing in Texas. (Nursing)
- Implement a peer review process in which faculty members apply for awards of merit, and peers determine the award recipients. (Nursing)

Resources:

- Revenue derived from the recently approved tuition increase. (All schools)
- General revenue, enhanced clinical revenue, research grants and gifts. (HSC)

Progress Measures relevant to all schools:

- Reduction in the difference between the mean faculty compensation at UTHSCSA and comparable figures for equivalent positions at peer schools. **Progress: All schools have evaluated salary differentials using comparisons with national faculty salary survey data. The Dental School has implemented an Academic and Clinical Faculty Incentive Program. The Medical School continues to develop a faculty performance-based compensation plan. The Graduate School did a comparison study of faculty salaries with the AAMC faculty salaries for basic sciences.**
- Evaluation of faculty searches in terms of success/failure in recruitment and in retention and comparison of current data to that of the previous two years. **Progress: Data are being collected through the end of FY05 to assess this measure.**
- Evaluation of faculty in terms of defined measures of clinical, research and scholarly productivity. **Progress: Data are being collected through the end of FY05 to compare with baseline measures.**
- Evaluation of diversity among faculty. **Progress: The School of Medicine is seeking ways to locate a wider diversity of candidates for unfilled/new positions. The School of Nursing is advertising faculty positions in a broader range of journals than previously.**

Additional Progress measure:

- Increase in number of 12-month contracts for faculty. (Nursing) **Progress: The School of Nursing is working on means of providing salary to convert current 9-month contract faculty to 12-month contract faculty.**

Major Obstacles for all schools:

- Inadequate start-up dollars to hire new faculty and/or senior, funded research faculty.
- Inadequate space for each recruiting activity.

Additional Major Obstacles specific to Nursing:

- Insufficient financial resources to attract funded senior research faculty.
- Insufficient financial resources to increase the number of 12-month contracts for faculty.

Goal 1.3- Student Access and Success: Cultivating An Effective Learning and Professional Environment

Objectives:

- Increase enrollment and retention of diverse, top-quality students.
- Follow the NIH Roadmap with regard to interdisciplinary graduate education.

Strategies for each school:

- Allied Health Sciences
 - Create two student centers designed to welcome students and assist them in acclimating to the School: a virtual center on-line, a physical center at the School.
 - Establish early acceptance programs for qualified students coming from regional feeder schools.
- Dentistry
 - Increase the number of elective courses in order to allow students to explore a variety of future career choices, pursue individual research interests and acquire teaching experience.
 - Encourage students to participate in dual degree options and Research and Teaching Training Honors Programs.

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- Explore funding opportunities in order to expand the dental academic career program, D9STAR.
- Graduate School
 - Appoint a faculty committee to develop and expand the range and scope of graduate programs so that they reflect the nature and complexity of contemporary biomedical science, the nature and scope of faculty research interests, and current mandates from federal/private funding agencies, such as the NIH Roadmap.
 - Finalize the program components for the MS/PhD program.
 - Develop financial resources for the DDS/PhD and MD/PhD programs.
- Medicine
 - Create an Office of Professionalism and Diversity that is charged with enhancing professionalism and humanism among students and faculty.
 - Create a Teaching Academy within the school and under the umbrella of the HSC Academic Center for Excellence in Teaching, the goal of which is to support teaching and learning.
 - Redesign the medical curriculum so that it emphasizes self-directed learning, integrates basic sciences with clinical training, and encourages use of technology.
 - Expand the activities of the Regional Academic Health Center (RAHC) in order to offer experiences in border health to more students.
 - Implement the new Clinical Skills Center.
- Nursing
 - Implement clinical course offerings for nurse practitioner majors in the summer in order to decrease time needed to graduate.
 - Implement curriculum changes at all levels and assess related outcomes.
 - Institute an interview as part of the screening process for admission.
 - Provide web-based format for all masters' level core courses.
 - Offer a Psych/Mental health degree preparation at the MS level.
 - Partner with the VA to develop a model curriculum for certification as a Clinical Nurse Leader.

Resources for all schools:

- Revenues derived from the newly approved tuition increase.
- Reassignment/reallocation of staff, where appropriate.
- Leveraging of funds, where possible, including student fees, training grants and other resources.

Additional resource for Dental, Graduate, Medical:

- New resources designated for initiating new degree programs including dual degree programs.

Progress measures relevant to all schools:

- Improved student profile when figures are evaluated for diversity and number of students recruited, retained and graduated. **Progress: The School of Allied Health has nearly completed early acceptance agreements with UT Brownsville and Prairie View A&M. The Graduate School of Biomedical Sciences has \$9M in federal grants pending review to support an increase in under-represented minorities at the graduate level in biomedical sciences. Graduate School has also obtained \$200k from UT System to jointly host a summer internship program for disadvantaged science students at UTSA for the next two years. The School of Nursing is working to obtain approval for an LVN to BSN program through the Laredo Extension Campus (LEC).**
- Increase pass rates for licensure and certification. **Progress: The School of Medicine is holding the ministep 1 exam later in the year, is adding several Step 1 prep sessions, and has implemented its own clinical skills practice exam for test preparation. The School of Nursing is referring more students to review courses for exam preparation. The School of Allied Health is studying means of improving students' results on the national board examinations in Deaf Education and Hearing Science as well as Physical Therapy.**

Progress measures specific to Allied Health Sciences:

- By summer 2004, student welcome centers will be established. **Progress: Completed.**
- Number of applicants will increase by 10% by fiscal year 2006. **Progress: Pending.**
- By October 2004, initiate an early acceptance agreement with Prairie View A&M. **Progress: Continuing development.**

Progress measure specific to Dentistry:

- In fiscal year 2006, implement a year-round curriculum designed to offer a wide array of electives that will enrich students' education. **Progress: The Dental School has introduced a new policy that, starting with entering students in 2004, students will have mandatory summer clinic sessions between year 2 and 3 and between year 3 and 4. Further planning on converting to 12-month curriculum is nearly finalized.**

Progress measure specific to Graduate School:

- Track requests to the Coordinating Board for new programs or changes to existing programs. **Progress: A faculty committee at the Graduate School of Biomedical Sciences is working on recommendations for new interdisciplinary programs, with expectation that new programs might be presented to the Coordinating Board in September 2006 at the earliest. Programs in neuroscience and bioinformatics are top prospects.**

Progress measures specific to Medicine:

- In Spring 2005, implement the Clinical Skills Center to enhance the pass rates of medical students on the new NBME Step 2 Clinical Skills examination. **Progress: Construction of a new Clinical Skills Center has been completed, equipment installed, and a director for the program hired.**
- Develop teaching sites for the RAHC throughout the Valley. **Progress: A new teaching site was established with an area ophthalmologist.**

Major Obstacles for all schools:

- Ability to secure new and/or reallocated funding.
- Physical space to support these activities.
- Identification of faculty who are willing to participate in these activities.
- Increased integration of Graduate School with teaching programs in the other schools.
- Competition among peer institution for qualified minority students.

SHORT-TERM INITIATIVE: EXPANSION OF SUCCESS IN RESEARCH ACTIVITIES

PRIORITY: #2

Goal 2.1- Increased Funded Research and Training Grants from all Sources

Objectives:

- Increase funding for research dollars from NIH and other extramural sources and expand research programs which focus on identified thematic areas.
- Increase faculty research productivity.

Strategies:

- Institutional
 - Assure that UTHSCSA has the financial capacity and physical space to support new research activities including RO1's and to promote programmatic/thematic research and training grants.

- Recruit a Vice President for Research whose responsibility it will be to facilitate institutional research efforts.
- Modernize the IRB to facilitate enhanced productivity.
- Develop a Clinical Studies Web Site.
- Increase the number/quality of invention disclosures through our Office of Technology Ventures.
- Increase the amount of income generated from intellectual property and accelerate the movement of technology to the marketplace.
- Allied Health Sciences
 - Hire at least one new research faculty in each of the next two years.
 - Increase extramural funding by 10% a year in the next two years.
- Dentistry
 - Organize and promote development of thematic research areas.
 - Expand clinical research programs through special training opportunities in order to address the increasing emphasis of NIH on clinical research.
- Graduate School
 - Develop an Institutional Postdoctoral Training Center/Office to enable the research faculty to recruit, retain and finance postdoctoral research fellows who reflect quality and greater diversity.
 - Support and encourage interdisciplinary, collaborative research initiatives and sharing of core facilities with interested colleagues in all five schools.
 - Increase the number of individual and group pre- and post-doctoral training grants awarded to faculty or groups thereof.
- Medicine
 - Actively seek additional NIH funding awards by recruiting known research faculty in order to improve the national ranking of the school.
 - Identify opportunities to develop and expand centers of excellence for translational research.
 - Allocate resources for research using Mission Aligned Planning process (MAP™) and other data to align support with research efforts.
 - Expand support for collaborative research through continued development of the Medical Education Research Fund, San Antonio Life Sciences Institute (SALSI) and ERC activities.
 - Expand research opportunities and training for junior physician faculty/students/residents, both on main campus and RAHC, and mentor faculty for research success.
 - Create a plan for ongoing maintenance and upgrade of research facilities.
- Nursing
 - Increase funding applications and success rate for sponsored research.
 - Secure new faculty members who have existing external research funding.
 - Brief faculty on research development and translate research instruments to include more culturally diverse subjects.

Resources for all schools:

- Grant and contract awards.
- Funds generated from recent tuition increases, where appropriate.
- Incentive plans, including optimizing the use of institutional F & A dollars.

Resources for the Health Science Center:

- Existing funds that can be reallocated.
- UTHSCSA resources available to faculty on a competitive basis: 1) SALSI grants; 2) New Investigator Funds; 3) Pilot Projects; 4) Faculty Enrichment; and 5) Presidential Research Enhancement Fund.
- Incentives for invention disclosures, patents and revenue sharing.

Progress Measures for all schools:

- Increased number of research and training grants applied for, and awarded. **Progress: A Vice President for Research was appointed in October. New or expanded collaborations have been developed with the San Antonio Institute for Molecular and Cellular Primatology, Central Texas Retreat on Aging, BorderPlex Council, and Center for Research in Musculoskeletal Diseases to advance establishing strong thematic centers for research.**
- Increase in the proportion of faculty with active funding. **Progress: Quantitative data are being collected after close of FY05 to assess progress on this measure.**
- Increase in the number of publications and national presentations. **Progress: Quantitative data are being collected after close of FY05 to assess progress on this measure.**
- Increase in number of invention disclosures, patents, and income from intellectual property. **Progress: Quantitative data are being collected after close of FY05 to assess progress on this measure.**

Major Obstacles for all schools:

- Competition for talented faculty and post-docs nationwide.
- Limited availability of faculty start-up packages.
- Funding necessary to upgrade and maintain existing laboratories/equipment.

SHORT-TERM INITIATIVE: EXPANSION OF EXCELLENCE IN CLINICAL AREAS

PRIORITY: #3

Goal 3.1- Enhance clinical programs in order to ensure excellence in patient care

Objectives:

- Become the provider of choice for many clinical programs in South Texas and beyond, by offering outstanding, efficient and safe patient service.
- Provide care to those most in need.

Strategies:

- Allied Health Sciences
 - Implement a faculty practice.
- Dentistry
 - Establish faculty development programs to enhance clinical skills.
 - Recruit dentists with broad training who can function in a general practice setting.
- School of Medicine
 - Finalize plans for the new Medical Arts and Research Center (MARC) building.
 - Improve and expand patient service at all ambulatory facilities by streamlining customer service via the Vice President for Patient Services at the University Physicians' Group (UPG) and developing patient safety initiatives which focus on the electronic medical record.
 - Continue strategic redesign of UPG's infrastructure.
 - Recruit UPG Vice President for Medical Staff/Associate Dean for Clinical Affairs.
 - Enhance relationships with University Hospital, the VA, CTRC, Christus Santa Rosa and other area health care institutions.
- Nursing
 - Expand clinical service and contracts in primary care settings.
 - Expand Faculty Enrichment program to encourage more clinical practice programs and increase collaboration with MD's in clinical practice.
 - Increase clinical practice and research by outreach to underserved communities through support for both research and practice efforts under MESA Funding.

Resource for Dental and Nursing:

- Increased productivity of clinical faculty as a result of incentive systems.

Resources for Medical:

- Increase in clinical revenue.
- Consider various mechanisms for funding the new ambulatory building.
- Increased productivity of clinical faculty as a result of incentive systems.

Progress Measure for Allied Health:

- Adoption of faculty practice plan for Allied Health by Spring 2005. **Progress: UTHSCSA Allied Health Partners Faculty Practice Plan was approved by Board of Regents. Currently, the Low Vision Center of the Practice Plan is actively treating patients.**

Progress Measures for Dental:

- Billing and collection data for Dental practice plans. **Progress: Data are being collected through the close of FY05 for assessment of progress.**
- Dental school faculty development programs put into place. **Progress: Faculty development programs in the Dental School have been expanded including setting aside one hour each Friday morning during the academic year to have presentations – inviting high caliber speakers for these sessions – to faculty (and students) on new advances in dentistry. Dental Continuing Education credit is awarded for these sessions.**

Progress Measures for Medical:

- Billing and collection data for Medical practice plans. **Progress: Data are being collected through the close of FY05 for assessment of this measure.**
- Adoption of formal plan for the new ambulatory building. **Progress: The Project Planning Schedule has been developed with key milestones. Proposals from architectural and design firms are undergoing review.**

Progress Measure for Nursing:

- Dollars in Faculty Enrichment plans and number of faculty with contracts at the Nursing School. **Progress: Faculty Enrichment Plan policies have been revised to encourage greater participation by the nursing faculty.**

Major Obstacle for Allied Health, Dental, and Nursing:

- Assuring that efficient and effective clinical operations are in place and functioning.

Major Obstacles for Medicine:

- Aligning the faculty culture with the need for clinical productivity and responsiveness.
- Successful recruitment of clinical faculty, as needed.
- Assuring that efficient and effective clinical operations are in place and functioning.

SHORT-TERM INITIATIVE: ORGANIZATIONAL EFFECTIVENESS AND PRODUCTIVITY

PRIORITY: #4

Goal 4.1- Improve the fiscal infrastructure and support services at all levels in order to enhance the goals and priorities of the Health Science Center.

Objectives:

Administration, Business Affairs, and Information Technology

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- Upgrade the PeopleSoft administrative system to allow web access and phase in the student module. (HSC)
- Define and develop opportunities to better address compensation and classification issues related to non-faculty positions. (HSC)
- Meet the April 2005 deadline for the Security Rule component authorized under the Health Insurance Portability and Accountability Act (HIPAA). (HSC)
- Limit use of the social security number as personal identification to those uses permitted or required by applicable law or University policy. (HSC)
- Develop a feasibility study for the capital financing plan to fund the construction of the MARC project and a new parking and auxiliary services structure for the main campus. (Medical)

Outreach Activities

Enhance K-16 pipeline activities and early admission agreements with key feeder schools. (All schools)

Increase alumni donations. (All schools)

▪ **Capital Campaign for Health Science Center**

- Conduct a successful capital campaign to secure adequate support for the endowment and construction of a major research tower.
- Secure the lead campaign gift or pledge.
- Increase membership in the President's Council and the Ambassadors' Circle of the Children's Cancer Research Institute.
- Conduct a comprehensive assessment of potential donors' interest in the health science center.

Resources for Health Science Center:

- Existing funding augmented by new dollars from local and federal sources.
- Re-allocation of existing funding.

Progress Measures:

- Obtain Web access on People Soft and convert student information system. **Progress: Use of new PeopleSoft Student Administrative component continues as planned and Student/Financial Aid system has been successfully implemented.**
- Implement the security component of HIPAA. **Progress: UTHSCSA remains on schedule to achieve HIPAA Security Rule compliance by April 2005.**
- Deploy software updates for security vulnerabilities automatically, by January 2005. **Progress: Centrally managed anti-virus and patch management protection continues to be enhanced, but further progress is pending release of production quality software by Symantec and BigFix.**
- Eliminate social security numbers on all documents, as prohibited by law. **Progress: Of the 21 actions required by BPM 66 to be implemented by 1/30/05, 20 have been implemented and the final requirement is expected to be completed by the end of fiscal year 2005.**
- Prepare a recommendation for salary adjustments in the Classified Pay Plan to improve compensation. **Progress: The review of all classification salary ranges has been completed and recommendations for changes are being considered.**
- Develop programs to reward employees with merit raises based on performance. **Progress: UTHSCSA has implemented merit-based salary increase programs for faculty and staff and for clinical and research faculty.**
- Prepare budget estimates, analysis of revenue streams and final projections for capital financing for the MARC project. **Progress: Projections are pending final space requirements of signature programs, final construction estimates, and final equipment requirements.**
- Completion of an assessment of potential donors' interest in the health science center. **Progress: On-line Internet giving via donor credit cards was activated at the end of December 2004. Plans are being developed by the school development officers and**

the President's Council's program coordinator to conduct e-mail solicitations of new and current donors.

- Conduct a successful capital campaign to secure support for the construction of a research tower and development activities to secure increased endowment. **Progress: Additional funds raised since end of FY04 for endowment = \$1,998,605, others: \$10.8 million.**
- Secure a lead gift/pledge of \$25 million or more for the capital campaign. **Progress: A detailed written Campaign Plan has been prepared and reviewed with numerous constituencies. The Capital Campaign's volunteer leaders have been recruited.**
- Increase in annual membership to the President's Council and Circle. **Progress: 18 new members have been recruited for the President's Council and 21 new members have been recruited for the Ambassador's Circle since September 2004.**
- Increase in the number of contacts of high school and college students. (All schools) **Progress: Each school has engaged in activities to increase their interactions with high school and college students in the greater San Antonio area and in South Texas. The number of contacts will be assessed quantitatively after all data are collected for FY05.**
- Increase the number of early admission agreements with key feeder schools. **Progress: The Dental School has trained advisors at UTEP regarding the newly established early admissions agreement with UTEP. The Dental School also has collaboratively drafted an early admissions program with Midwestern State University that is currently under review.**
- Increase in alumni donations. (All schools) **Progress: Four of the five schools are working on developing systems to more completely identify and communicate with their alumni regarding donations.**

Major Obstacles:

- Lack of funds to deploy fully vendor provided software updates. (HSC)
- Increased, effective communication to enhance recognition of the HSC by the community. (HSC)
- Generating funding and engaging the faculty in outreach and access programs. (All schools)

SHORT-TERM INITIATIVE: COMMUNITY AND INSTITUTIONAL RELATIONS

PRIORITY: #5

Goal 5.1- Increase collaborations with *the University of Texas at San Antonio* (UTSA).

Objective:

- Develop more educational, research, and other types of collaborative efforts with UTSA.

Strategies:

- Plan and carry out effective joint research, degree and other programs.
- Expand the existing cross campus cost efficient delivery of services relationship.

Resources:

- Funds from the UT System.
- Contributions from each institution, grants and fundraising.

Progress Measures:

- Increase in the number of education, research and other types of collaborative efforts with UTSA. (All schools) **Progress: SALSJ funded 9 new proposals (at \$1.1 million combined), one of which was for education and the remaining were research proposals ranging across a broad spectrum. The School of Allied Health Sciences and the School of**

Medicine are working on development of an interdisciplinary doctoral degree in Communication Science with UTSA. The School of Medicine is developing a five-year plan for a Women's Health Curriculum that will involve joint teaching by UTSA and HSCSA faculty. A grant has also been received to establish a National Center for Women's Health on the HSCSA campus.

Major Obstacles:

- Perceived cultural differences between the two institutions.
- Limited availability of funds for both short-term and long-term projects.

Goal 5.2- Increase development of the Laredo Extension Campus (LEC)

Objective:

- Provide a progressive health professional educational service in an underserved area.

Strategies:

- Provide continuing education for health professionals.
- Continue environmental health training and education (STEER).
- Strengthen student health careers pipeline activities.
- Provide training for dental students and residents.
- Develop a regional learning center in fiscal year 2006.
- Provide infrastructure support for community/population based education.
- Promote selected Allied Health educational activities.

Progress Measures:

- Increase in numbers of educational activities in Allied Health. **Progress: A partnership between the School of Allied Health Sciences and Texas A&M has been developed for a collaborative offering of a Physicians Assistant Program through the LEC. The Memorandum of Understanding has been submitted to all parties.**
- Increase in numbers of virtual and Web courses offered. **Progress: Medical School and Nursing School are providing limited continuing education programs. School of Nursing is proposing a LVN to BSN program with Texas A&M University.**

Major Obstacle:

- Insufficient funding from the state.

LONG-TERM INITIATIVE: CULTIVATION OF OUTSTANDING ACADEMIC ENVIRONMENT

PRIORITY: #1

Goal 1.1- Create an infrastructure that develops and supports an environment which attracts a diverse group of faculty/staff and students and enhances their success.

Strategies for all schools:

- Encourage academic productivity through financial incentives and recognition through promotion and tenure.
- Develop collaborative models for joint projects that integrate the work of schools and individual departments and identify potential funding support.
- Develop initiatives designed to promote "professionalism" in each school and to create a welcoming and respectful academic environment.
- Consider diversity to be an issue of fundamental importance to both the student admissions and faculty recruitment processes.

Resources:

- HSC budgets limited resources strategically.
- Refining the administrative structure and budgetary process.

Progress Measures for all schools:

- Increased recruitment and retention of faculty as measured by open and/or internal searches.
- Rankings of scholarly achievement as demonstrated by research grants, appointments to prestigious academic bodies, successful recruitment and matriculation of students, publication, and successful technology transfer.
- Increase in unrestricted funds that enable the HSC to be competitive in attracting and retaining top quality academic talent. (HSC)

Major Obstacles:

- An existing institutional ethos that does not encourage multidisciplinary and inter-school collaboration. (All schools)
- Willingness to make difficult decisions regarding allocation of resources. (All schools)

LONG-TERM INITIATIVE: SERVICES TO THE COMMUNITY

PRIORITY: #2

Goal 2.1- Enhance and solidify the role of UTHSCSA in South Texas

Objectives:

- Ensure reliable telecommunications service to areas in South Texas.
- Use the Regional Academic Health Center (RAHC) and Laredo Extension Campus (LEC) as models for the development of meaningful programs for community constituencies.
- Ensure that UTHSCSA is represented at important healthcare and health professional functions in the 38-county region of South Texas.

Strategies:

- Create a network infrastructure in South Texas to deliver reliable telecommunications services including video, voice, data, and computer systems.
- Work with existing South Texas partners to coordinate health programs, develop/monitor calendar of health-related events in a 38 county region.
- Co-sponsor international seminars, symposiums, and continuing education programs for health professionals.
- Partner with federal and state agencies in grants and contracts to provide educational training and activities, i.e.-emergency medical services.
- Expand the number and variety of community-based health professionals and institutions participating in the pipeline program (e.g., the MedEd Program.)

Resources:

- Reallocation of funding as well as faculty and staff time.
- PUF/LERR Funds, where appropriate.
- Administrative staff who routinely travel throughout the 38-county region to maintain visibility and to ensure knowledge of local activities.
- Staff at sites that are in operation in Harlingen, McAllen, Edinburg, and Laredo form the baseline for expansion activities.

Progress Measures:

- Installation of common carrier circuits by summer 2005.
- Increased enrollment and graduation of students from South Texas.
- Identification of potential partnerships with local stakeholders to address health care issues.
- Increased number of health care organizations seeking consultations/information.
- Increased number of health professional students seeking remote clinical rotations, selectives, and/or electives in South Texas.
- Increase in the number of program participants, and the number/percentage of applicants to a professional school accepted, enrolled and graduated.

Major Obstacles:

- Funding new initiatives and sustaining ongoing funding needs.
- Limited staff and funds to cover clinical training and education for health care professionals and related health initiatives.
- Limited funding for remote student housing.
- Difficulties in hiring/contracting faculty.
- Participation by the Office of Telecommunications of the UT system is critical to the success of the fail-safe ring for South Texas.

LONG-TERM INITIATIVE: ORGANIZATIONAL EFFICIENCY

PRIORITY: #3

Goal 3.1- Construction of New Buildings

Objective:

- Design and construct new buildings to meet the needs of the institution.

Strategies:

- Ensure that designs for new building are structurally sound and meet the occupants' needs.
- Represent the best value in construction costs versus future maintenance costs.
- Incorporate energy features that are both efficient and environmentally sound.

Resources:

- Reallocation of existing resources.
- Tuition Revenue Bonds, PUF/LERR funds.
- Requests to legislature for funding.

Progress Measures:

- Diminished needs for leased space.
- Increase in qualified faculty, students and staff that reflect diversity.
- Increase in funding through grants.

Major Obstacle:

- Lack of recent success in obtaining funds.

Goal 3.2- Improve the position of the UTHSCSA with regard to deferred maintenance, emergency preparedness and fire and life safety issues.

Objectives:

- Install, test, and upgrade existing emergency, fire and life safety programs.

- Provide resources necessary to reduce the frequency of fires through education, and the magnitude of fires via the phased-in installation of automatic sprinkler systems.

Strategies:

- Request additional resources for emergency preparedness and deferred maintenance.
- Improve the knowledge of faculty/staff, and students about appropriate emergency responses.
- Allocate institutional funding each year to address deferred maintenance and fire/life safety systems.

Resources:

- Funding from the legislature and PUF/LERR Funds.
- Additional knowledgeable emergency, fire, and life safety professionals.
- Capital expense resources to address safety and deferred maintenance needs.

Progress Measures:

- Increase the percentage of new employees who participate in safety training programs to 100%, and achieve 25% participation of current staff through new web-based technology, by fiscal year 2006.
- By fiscal year 2006, decrease of 5% in rate of occupational injury, decrease by 5% the worker's compensation premium rate, and increase the annual workplace safety evaluations to 100%.
- Install automatic sprinklers within 36 months of the completion of the new research tower complex.
- Implement fire safety remediation plan over 10 years.

Major Obstacles:

- Lack of funding.
- Construction costs inflated by 5% annually.
- UT System retaining more risk with higher insurance deductibles.

III. Future Initiatives of High Strategic Importance

***NOTE:** The HSCSA was asked by the System to review, and change if needed, its future initiatives for this Compact Update. Because the HSCSA is in the process of conducting long-term, institutional strategic planning and is committed to aligning our strategic planning and the Compact, at this time, no changes have been made to the future initiatives as submitted in the original Compact document. We anticipate that our institutional planning process will be completed by the end of February 2006. Appropriately, any changes to our future initiatives will be incorporated into the Compact after our planning process is complete to ensure alignment.*

INITIATIVE: CONTINUED CULTIVATION OF OUTSTANDING ACADEMIC ENVIRONMENT

PRIORITY #1

Objective 1.1: The HSC Library will expand its role in knowledge management.

Strategies:

- Obtain input from major stakeholders through strategic planning activities.
- Set priorities for implementation of knowledge management as identified above.
- Foster interdisciplinary collaborations by facilitating the development of unlikely partnerships.
- Work with the schools to integrate library and information management into academic programs.

Resources:

- Availability of resources for expertise, funding, faculty/staff, and physical space is currently unknown.

Progress Measures:

- Completed needs assessment of users.
- Summary of strategic planning results, including prioritized action items.
- Increase in collaborative activities between the library and others.
- Increased integration of information management in academic programs.

Major Obstacles:

- Involvement of the institution, overcoming resistance to change.
- Escalating costs of information acquisition and storage.
- Ability to obtain resources: expertise, finances and personnel

INITIATIVE: INCREASING EVIDENCE OF CLINICAL EXCELLENCE

PRIORITY #2

Objective 2.1: The School of Medicine will build an Academic Group Practice that serves the community and offers state-of-the-art clinical services which support the School's missions of teaching, research, and patient care.

Strategies:

- Institute the "Patient First" initiative to measure and improve patient satisfaction.
- Develop new tools for measuring performance in key service quality indicators.
- Develop a care team model to optimize use of physician time.
- Improve management of patient appointments in order to enhance access, decrease the number of missed appointments, and reduce wait times.
- Redesign medical records system to improve efficiency.
- Study the design of the facility in order to evaluate if the number of exam rooms is adequate and to determine the efficiency of flow for patients and staff.
- Modify practice name to reflect ties to the University of Texas.
- Develop a marketing plan with a specific differentiation strategy for the practice.
- Budget funds for marketing and execute the plan.
- Conclude planning process for new ambulatory campus.
- Conclude construction of new ambulatory campus.

Resources:

- Financing required to be determined for ambulatory clinical campus.
- School of Medicine will determine additional physician and staff resources.

Progress Measure:

- Milestones to be established; UPG will monitor achievement toward objectives.

INITIATIVE: DEFINE THE SCOPE OF THE ROLE OF UTHSCSA IN SOUTH TEXAS

PRIORITY #3

Objective 3.1: Define the activities of the UTHSCSA, South Texas initiatives, RAHC and Laredo Extension Campus (LEC) in the Lower Rio Grande Valley; develop a system to ensure

that these activities are aligned with the missions of the institution; develop additional clinical sites for medical student rotations.

Strategies:

- Require each UTHSCSA medical student to complete at least one clinical rotation at an approved clinical site in the 7 border counties of South Texas.
- Broaden health profession education programs at the RAHC and LEC to support an environment of excellence in teaching for students/residents and faculty.
- Broaden both the clinical research and basic research programs at the RAHC in order to support excellence in research for students, residents and faculty.
- Develop a business plan that ensures that the UTHSCSA will have the resources required to sustain the quality of its education and research programs at the RAHC and LEC long term.
- Inventory all School of Medicine activities in the Lower Rio Grande Valley.
- Align activities to specific missions of the UTHSCSA.
- Establish extensive listing of approved remote clinical training sites, clinical faculty, and preceptors.

Resources:

- Faculty time.
- Funding streams from the State of Texas.
- Grants and contracts.
- Faculty practice to be explored.

Progress Measures:

- Increased number of UTHSCSA medical students participating in remote clinical experiences in the Texas-Mexico border region.
- Sustainable financial models created with stable funding.
- Tracking recruitment of excellent clinical faculty to the RAHC.
- Tracking recruitment of excellent basic and clinical research faculty to the RAHC.
- Expansion of health profession education programs at the RAHC and LEC.
- Development of basic and clinical research activities at the RAHC.

Objective 3.2: The Dental School will engage in a planning process to determine what role it should play in addressing oral health disparities in South Texas.

Strategies:

- The School will initiate a comprehensive planning process to determine where it can best invest assets in order to improve the oral health of all South Texas residents, especially those who are most needy.
- The School will develop a long-term plan for clinical education programs in South Texas.

Resources:

- Staff support required to conduct the inventory of activities and to develop business plans.
- Leveraged revenue sources.
- State appropriations needed in partnership with local foundations.
- Possible federal and/or national foundation grants.
- Other financial resources unknown at this time.

Progress Measures:

- Comprehensive planning documents developed.
- Advocacy by South Texas communities.
- Make the clinical education program for dentistry a HSC legislative funding priority.
- Oral Health Disparities Planning Document.

- Documented inventory of activities.
- Documented business plans.

Objective 3.3: Provide appropriate training and education for community response to natural and man-made disasters in South Texas.

Strategy:

- Acquire recognition as the regional health professional institution that provides emergency response training, education, and resources to a bi-national geographic region in the event of natural or man-made disasters.

Resources:

- Federal and state funds.

Progress Measure:

- Increase in number and variety of emergency response training measures as a response to natural and man-made disasters.

IV. Other Critical Issues Related to Institutional Priorities

A. Impact of Initiatives:

- Enrollment Management: (See pages 3-4.)
- Diversity: (See pages 1-5, 9-10.)
- Community and Institutional Relations: (See pages 1, 8-14.)
- Finances: (See pages 7-8.)
- Facilities: (See pages 4-8, 10.)
- Other infrastructure issues: (See pages 6-11.)

B. Unexpected Opportunities or Challenges/Crises:

Opportunities:

- Obtaining state general revenue funding for indigent care.
- Revising the higher education funding formula to recognize excellence in education, research and clinical services.
- *Including higher education employees in the across-the-board, cost-of-living raise for state employees.*
- *Obtaining Tuition Revenue Bond funding for the HSCSA Research Tower, Faculty Office Building and Clinical Research Building.*

NOTE: "Opportunities" included in the initial Compact that were deleted in this update and the reason for the deletions are as follows; 1) A fourth formula was added to fund Graduate Medical Education (GME), and, as a consequence, the HSCSA received \$3 million for support of its GME program. 2) Funding for faculty and staff compensation and benefits was not deleted from the opportunities list inasmuch as higher education employees were excluded from the across-the-board raise for state employees. However, the HSCSA has addressed this critical need for upward adjustment of employee salaries in part through internal reallocation of HSCSA funds to support a modest funding pool for employee merit raises. 3) The HSCSA did receive an additional \$5 million for the coming biennium--\$3 million of which was designated for support of our South Texas programs.

Challenges and Crises:

- Changes in state regulations regarding faculty-student ratios and/or curricular requirements for licensure and certification.
- Continued vulnerability of our clinical partners.
- Dependency on community support for our primary care residency program in South Texas.
- ***Need to obtain incremental funding to support the continued growth of the RAHC, particularly for the impact of the Edinburg Research facility coming on-line and maturing during the coming biennium.***
- Lack of sufficient resources for competitive recruitment of premier faculty, especially for attractive start-up funds for research activities of new faculty members.
- Funding for faculty and staff compensation and benefits.
- ***Need to obtain Tuition Revenue Bond and/or PUF funding to address HSCSA's 300,000+ square feet space deficit.***
- ***Critical need for funding for fire and life safety and deferred maintenance.***
- Potential reduction of federal funding for research.
- Unanticipated call-up of faculty and students for national service in the military or for other federal initiatives.

NOTE: One "challenge" presented in the initial Compact was, "The elimination of the Section 56 State Relief Fund." This "challenge" has been deleted since Section 56 support was rolled into recurring General Revenue funding. Consequently, this potential "challenge" was favorably resolved.

V. System and State Priorities

- Increase student access and success. (See pages 2-4.)
- Collaborate with institutions in the UT System, particularly academic-health institution collaborations. (See pages 4-5, 8-9.)
- Increase external research funding. (See pages 4-5, 8, 12.)
- Increase tangible marks of academic and health care excellence. (See pages 1-4, 6-7, 11-13.)
- Improve development and alumni relations. (See pages 7-8.)

VI. Compact Development Process

In developing the original draft of this Compact, UTHSCSA wished to ensure widespread participation from all interested parties on campus. To this end, each member of the Executive Committee was responsible for coordinating the involvement of faculty, staff and students in his/her respective area. Most units selected a representative group of faculty, staff and student leaders to draft their individual documents. Specifically, the Dental School extracted information from its own strategic planning document to identify and address issues for the next 18-24 months. During the preparation of the draft, various Deans also requested input from the faculty assembly of their respective schools. The Executive Committee members met individually with their department heads. Members of the Executive Committee compiled information, submitted their drafts, and met with the President to refine the document. In addition, members of the Faculty Senate of the Health Science Center reviewed the draft. The President solicited input from the Executive Vice President for Academic and Health Affairs, the Executive Vice President for Business and Chief Financial Officer, and the members of the entire Executive Committee. Then, the President compiled the final version of the Compact.

The preliminary draft update and progress report to the Compact were identified during the process of collecting baseline data and progress updates from constituents across the HSC campus. This process included discussions with all five Deans, several Vice Presidents, and numerous faculty and staff. The President, in consultation with the Vice President for Academic Administration, reviewed and finalized the preliminary draft update submitted in May 2005.

Because of the limited focus of the sections to be reviewed for this Compact Update per directive from the System (extensive updates to Section II of our Compact in May 2005 were determined by the System to eliminate the need to further revisions to that section), the Compact review and decisions to make the revisions presented here primarily involved various administrators and key staff. Representatives from all major sectors of the HSCSA campus community are involved in the development of the institutional strategic plan and in the alignment of the Compact and the strategic plan. As noted above, we expect this intensive planning and alignment process to be completed by February 2006.

VII. System Contributions

- Support the request of the HSCSA for Tuition Revenue Bond Priorities. (*pending*)
- Support the LERR request submitted by the HSCSA. (*to be addressed at the August Board of Regents' meeting*)
- *Assist HSCSA in acquiring funding support for deferred maintenance.*
- Provide HSCSA with funding support for faculty recruitment and retention packages.
- Advocate market-competitive compensation funding for both faculty and staff.
- *Support funding through PUF for reducing the significant space deficit at HSCSA.*

NOTE: *Items identified in the initial Compact as potential System contributions that were actualized (and therefore were deleted from this update) include: 1) support for HSCSA legislative priorities for enhanced funding during the legislative session, and 2) for state-wide legislative initiatives to improve the application of formula funding in order to sustain growth at the HSCSA.*

VIII. Appendices

A. Budget Summary:

The University of Texas Health Science Center at San Antonio
Operating Budget
Fiscal Year Ending August 31, 2005

	FY 2004 Adjusted Budget	FY 2005 Operating Budget	Budget Increases (Decreases) From 2004 to 2005	
			Amount	Percent
Operating Revenues:				
Tuition and Fees	\$ 14,306,729	17,759,519	3,452,790	24.1%
Federal Sponsored Programs	94,650,062	105,759,934	11,109,872	11.7%
State Sponsored Programs	5,567,200	3,793,750	(1,773,450)	-31.9%
Local and Private Sponsored Programs	58,376,481	66,810,647	8,434,166	14.4%
Net Sales and Services of Educational Activities	1,000,000	3,000,000	2,000,000	200.0%
Net Sales and Services of Hospital and Clinics	-	-	-	-
Net Professional Fees	89,148,104	89,363,697	215,593	0.2%
Net Auxiliary Enterprises	2,260,000	2,278,064	18,064	0.8%
Other Operating Revenues	15,442,227	14,553,245	(888,982)	-5.8%
Total Operating Revenues	280,750,803	303,318,856	22,568,053	8.0%
Operating Expenses:				
Instruction	187,402,598	191,551,640	4,149,042	2.2%
Academic Support	19,774,090	23,559,236	3,785,146	19.1%
Research	113,837,808	98,848,137	(14,989,671)	-13.2%
Public Service	-	21,215,091	21,215,091	-
Hospitals and Clinics	57,846,190	74,519,918	16,673,728	28.8%
Institutional Support	28,867,790	23,310,931	(5,556,859)	-19.2%
Student Services	2,994,448	2,419,169	(575,279)	-19.2%
Operations and Maintenance of Plant	19,022,622	21,651,019	2,628,397	13.8%
Scholarships and Fellowships	125,000	886,769	761,769	609.4%
Auxiliary Enterprises	2,488,858	2,438,227	(50,631)	-2.0%
Total Operating Expenses	432,359,404	460,400,137	28,040,733	6.5%
Operating Surplus/Deficit	(151,608,601)	(157,081,281)	(5,472,680)	3.6%
Nonoperating Revenues (Expenses):				
State Appropriations & HEAF	138,393,231	143,334,618	4,941,387	3.6%
Gifts in Support of Operations	4,916,525	5,802,025	885,500	18.0%
Net Investment Income	21,762,589	20,934,499	(828,090)	-3.8%
Other Non-Operating Revenue	-	-	-	-
Other Non-Operating (Expenses)	-	-	-	-
Net Non-Operating Revenue/(Expenses)	165,072,345	170,071,142	4,998,797	3.0%
Transfers and Other:				
AUF Transfers Received	-	-	-	-
AUF Transfers (Made)	-	-	-	-
Transfers From (To) Unexpended Plant	-	-	-	-
Transfers for Debt Service	(10,379,657)	(10,195,297)	184,360	-1.8%
Other Additions and Transfers	10,109,866	11,147,375	1,037,509	10.3%
Other Deductions and Transfers	(9,024,866)	(8,827,375)	197,491	-2.2%
Total Transfers and Other	(9,294,657)	(7,875,297)	1,419,360	-15.3%
Surplus/(Deficit)	\$ 4,169,087	5,114,564	945,477	22.7%
Total Revenues	\$ 445,823,148	473,389,998	27,566,850	6.2%
Total Expenses and Debt Service Transfers	(442,739,061)	(470,595,434)	(27,856,373)	6.3%
Surplus (Deficit)	\$ 3,084,087	2,794,564	(289,523)	

Note: Operating Budget Highlights with a glossary of terms are included on Page 1.

SECOND DRAFT: 7/15/05

B. Statistical Profile:

UT HSC - San Antonio

ENROLLMENT	<i>fall</i>	2000	2001	2002	2003	2004
Undergraduate						
Allied Health		341	418	379	347	
Nursing		421	485	528	528	
Graduate/professional						
Allied Health		134	153	146	205	
Biomedical Sciences		272	277	320	314	
Dental		402	396	404	397	
Medical School		824	829	822	816	
Nursing		149	151	129	128	
Total		2,543	2,665	2,728	2,754	

DEGREES AWARDED	<i>academic year</i>	99-00	00-01	01-02	02-03	03-04
Undergraduate						
Certificates						
Allied Health		55	157	213	212	155
Baccalaureate awards						
Allied Health		143	131	42	64	
Nursing		236	168	220	238	
Graduate/professional						
Allied Health		37	33	48	50	
Biomedical Science		52	55	46	60	
Dental		107	104	103	112	
Medical		196	195	193	194	
Nursing		46	56	46	31	
Total graduate/professional		438	443	436	447	

GME PROGRAMS	<i>academic year</i>			02-03	03-04
Accredited GME resident programs				53	54
Residents in GME accredited programs				700	648

RESEARCH	<i>fiscal year</i>	2000	2001	2002	2003	2004
Federal research expenditures		\$58,600,224	\$66,852,477	\$83,760,708	\$86,854,337	\$89,661,741

FACULTY / STAFF	<i>fall</i>	2000	2001	2002	2003	2004
All instructional staff		not counted	1,393	1,404	1,405	1,774
Classified employees		2,338	2,572	2,695	2,611	2,662
Administrative/professional employees		431	549	521	523	524
Student employees		323	607	551	440	480

PATIENT CARE	<i>fiscal year</i>	1999	2000	2001	2002	2003
Hospital days		201,745	123,266	224,311	202,000	224,366
Clinic visits		832,255	915,725	854,046	834,000	1,110,429
Un-sponsored charity care (charges)		\$94,385,418	\$60,729,594	\$60,602,900	\$70,149,189	\$77,586,366

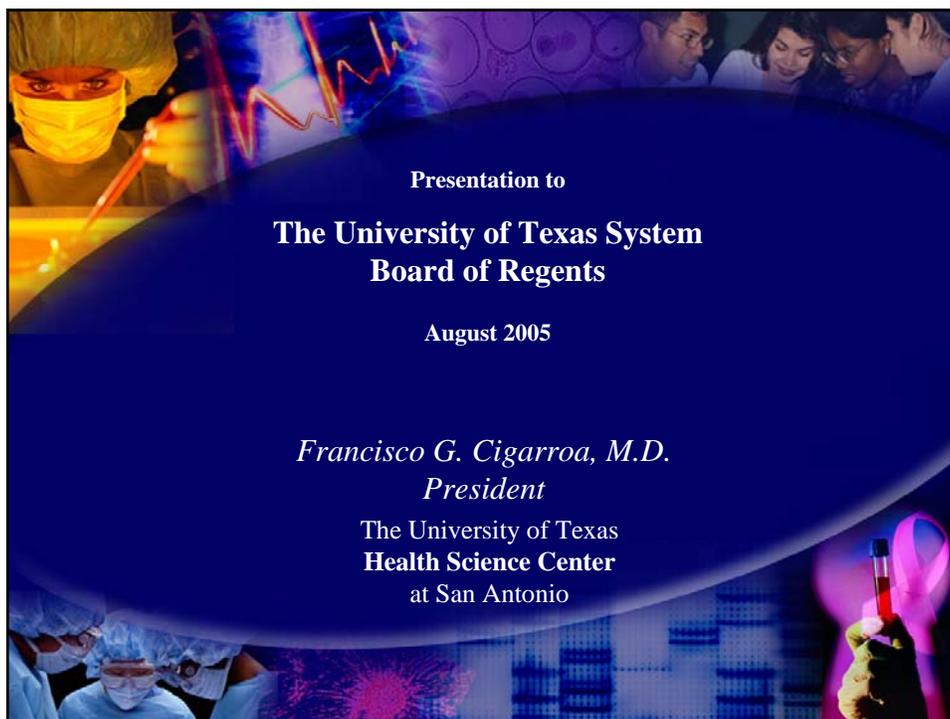
ENDOWMENT	<i>as of</i>	8/31/99				8/31/04
Endowment total value		\$252,852,000				\$278,385,000

C. Institution-Specific Information:

- Dental School surveys students after the completion of each course to assess their opinions regarding the effectiveness of the course.
- School of Allied Health Sciences survey their graduates regarding their levels of satisfaction about the learning environment.
- School of Nursing annually surveys incoming students on their knowledge and needs in technology.
- Student Services surveys a sample of students every other year on their levels of satisfaction for all support services.

D. Links to Web Resources:

(Institutional data profiles are currently under development.)



Presentation to

**The University of Texas System
Board of Regents**

August 2005

*Francisco G. Cigarroa, M.D.
President*

The University of Texas
Health Science Center
at San Antonio

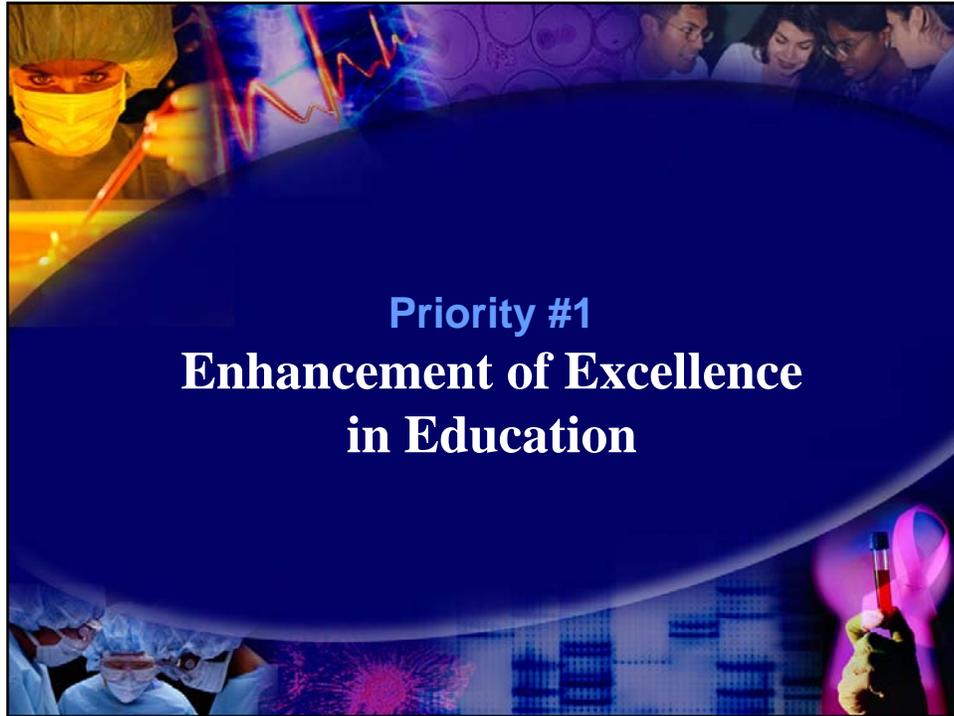
UTHSCSA Compact

Short Term Initiatives:

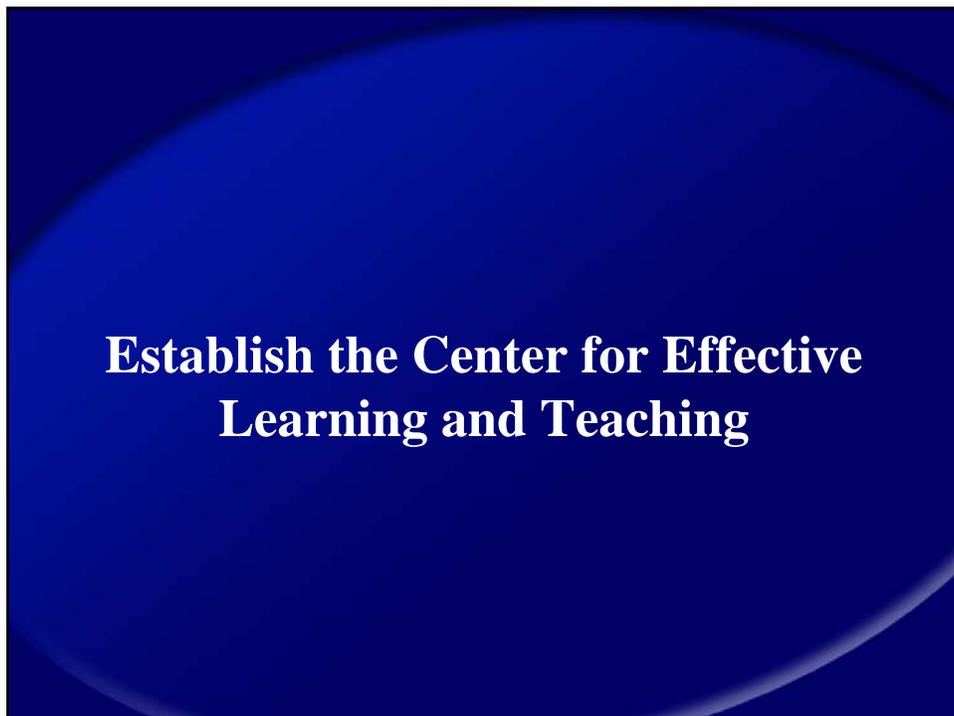
1. Enhancement of Excellence in Education
2. Expansion of Success in Research Activities
3. Expansion of Excellence in Clinical Areas
4. Organizational Effectiveness and Productivity
5. Community and Institutional Relations

Long Term Initiatives:

1. Cultivation of Outstanding Academic Environment
2. Services to the Community
3. Organizational Efficiency



Priority #1
Enhancement of Excellence
in Education



Establish the Center for Effective
Learning and Teaching

Clinical Skills Center

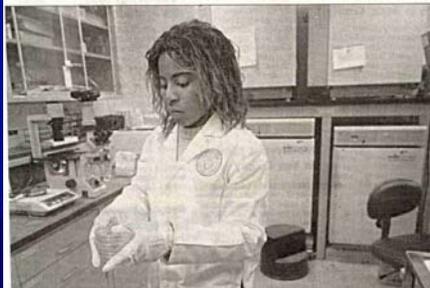


Launched formal MD/PhD and DDS/PhD Programs



Dr. Scientist in the making

25-year-old is the first to formally enroll in UTHSC's new M.D.-Ph.D. program academic medicine's 'wave of the future'



By KAREN ADLER
 covers news story areas

At just 25, Jewell Carter is halfway through her first year of school and in her first biomedical engineering master's program.

When it's all said and done, she'll have spent about a year and a half in the program.

And that's on the track.

Carter is the first M.D.-Ph.D. student at the University of Texas Health Science Center, marking the school's foray into physician-scientists.

The combined program leads to medical advances, says Robert Lee, dean of the school. "We know how to find answers," he says. "We know how to find the answers."

Lee, who is also an engineer, says the program was established this

CONTINUED FROM 18

year. Her intelligence, focus, passion and commitment to research made Carter a standout for the program. Agrawal said Carter was awarded the George W. Truett Endowed M.D.-Ph.D. Scholarship, which will fund much of her graduate school.

Carter takes her commitment to research seriously. "I like to be thorough," she said. "I find you a certain level of confidence."

M.D.-Ph.D. programs have existed for years, but this is the first in the region.

"There is a growing interest nationwide in training physician-scientists," said Dr. Francisco Carrara, president of UTHSC. "This is the wave of the future in academic medicine and positions the health science center to lead in South Texas."

Ultimately, the health science center would like to accept five M.D.-Ph.D. students a year so there will be 25 to 40 students

in the program at a time, said Dr. Anthony Infante, associate dean for research at the medical school.

"It's another program that puts us on the national map," he said. "You want to recruit the best and brightest. Sometimes the best way to do that is to grow your own."

After Carter finishes her studies in 2009, she plans to do it all — teach, practice medicine and research, she said. She's interested in tumor engineering, which involves growing cells that can replace skin, liver and other organs.

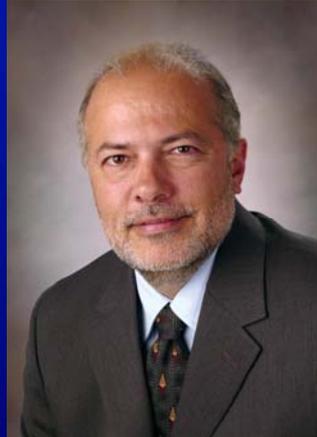
She's in the first year of her doctorate program, and when she completes that, she'll return to medical school to finish her last two years.

"It's a long time, there's no getting around it," said Infante, a 1978 graduate of the M.D.-Ph.D. program at the University of Indiana.

Fortunately, she enjoys what she does.

adler@express-news.net

Appointed



Pedro Delgado

Assistant Dean for Faculty
Development and
Professionalism

Chair of Psychiatry

Recruitment

21% increase in medical faculty



David Jimenez, M.D.



Constance Barone, M.D.



Thelma Hurd, M.D.

CCRI new recruits



Alex Bishop, D. Phil.



Charles Keller, M.D.



Don McEwen, Ph.D.



Luiz Penalva, Ph.D.



Yuzuru Shiiio, M.D., Ph.D.



Raymond Stallings, Ph.D.

Arlan Richardson, Ph.D.



12-month Nursing Contracts

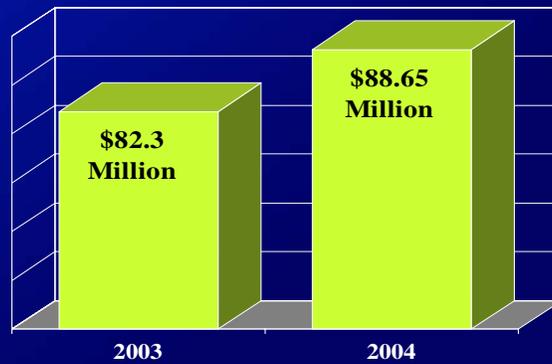


Priority #2
**Expansion of Success in
Research Activities**

Increase NIH Funding

NIH Awards

Growth from 2003 to 2004:
7.7%



Appointed



Brian Herman, PhD
Vice President for Research

Sam and Ann Barshop Institute for Longevity and Aging Studies

Dedicated May 2, 2005



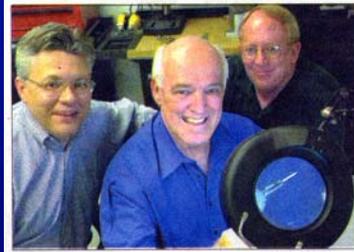
\$ 25.7 M in aging research
funding (includes
\$11.7 M in NIA
funding)

**RAHC Medical Research Division
at Edinburg**



Accelerate Tech Transfer

VidaPort



EXPRESSIONS FILE PHOTO
 VidaCare's Eric Esbrenner (from left), founder Larry Miller and Jim Thorsen show off the EZ-IO, a breakthrough medical device.

Last year's picks going forth and prospering

They report growth, new markets and even a makeover.

By L.A. LOREK
 EXPRESSIONS BUSINESS WRITER

The four-to-watch biotechnology companies from last year continue to grow and expand into new markets.

VidaCare and OsteoBiologics are both growing dramatically; each rolled out new products last year.

Incell Corp. had a transitional year in which it quit being a research and development

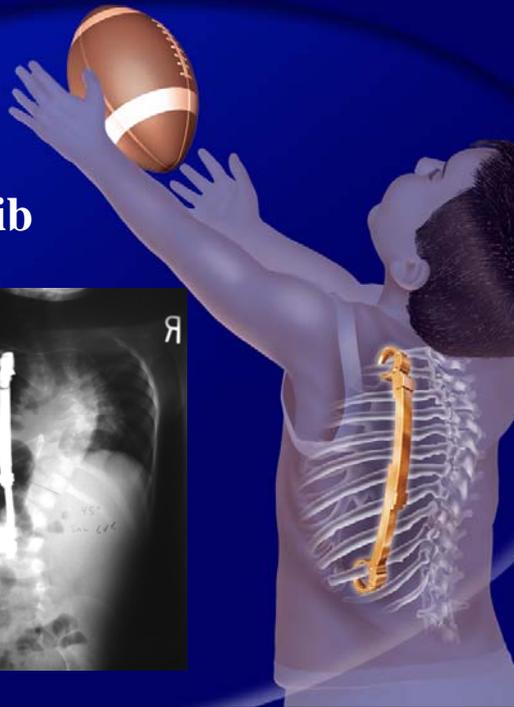
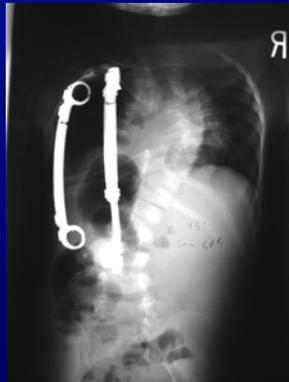
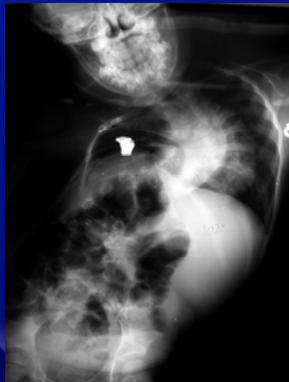
but it expects sales of \$1.5 million this year, which was its target for 2004, Miller said.

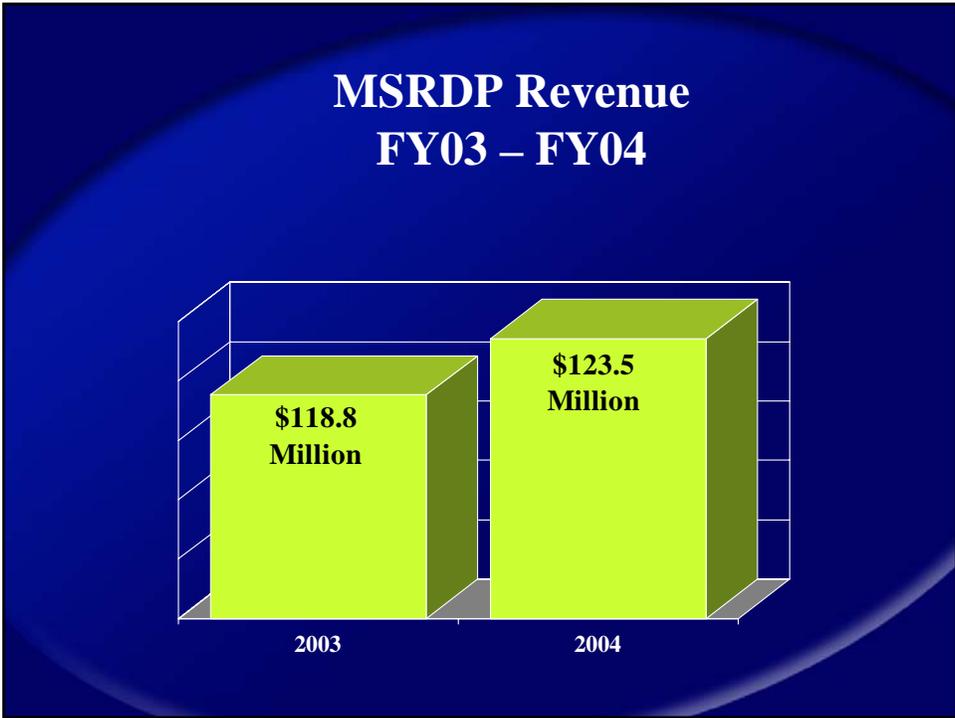
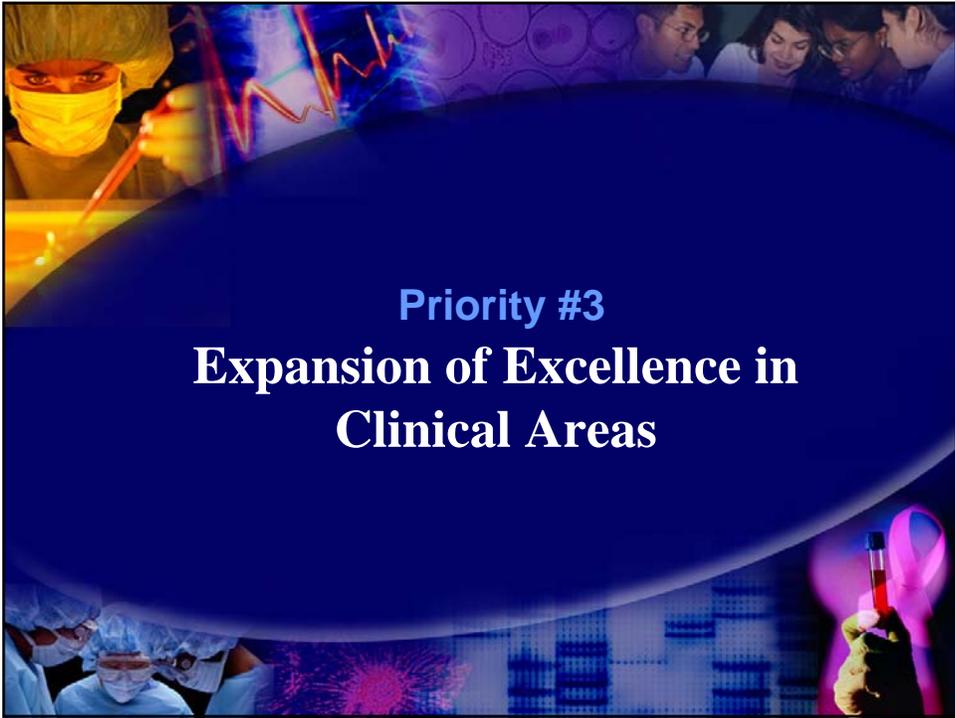
In the past year, OsteoBiologics introduced a new concept to the orthopedic market and began selling it products. The company added seven employees and now has a staff of 36.

OsteoBiologics also received several additional FDA clearances, as well as Canadian and European clearances for its bone and cartilage repair products, said Fred Dinger, the company's CEO.

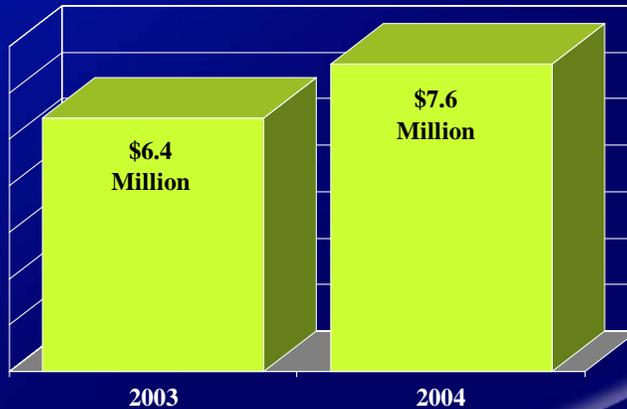
The company's PolyGraft Bone Graft Substitute product has been on the market just over a year and more than 4,000 medical procedures have been

The Titanium Rib

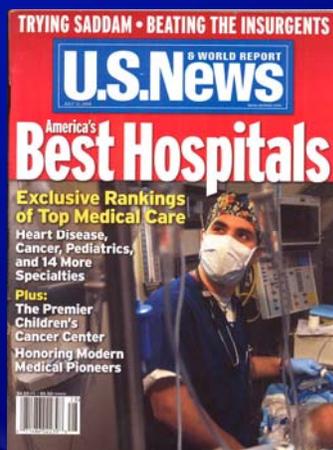




DSRDP Revenue FY03 – FY04



U.S. News and World Report America's Best Hospitals



UTHSCSA faculty earned
Top 50 honors in five specialties:

- Endocrinology (including diabetes care)
- Heart and heart surgery
- Kidney disease
- Orthopedics
- Respiratory Disorders

Salinas Clinic



Santa Rosa Children's Academic Hospital

Relations with partners – never been better

Academic children's hospital set for San Antonio

CHRISTUS Santa Rosa, Health Science Center creating comprehensive care setting

Don A. Beeler, President/CEO, CHRISTUS Santa Rosa Health Care, and Francisco G. Cigarra, M.D., President of The University of Texas Health Science Center at San Antonio, announced the signing of a formal affiliation agreement to begin the first-ever comprehensive academic children's hospital in San Antonio.

"Today marks a great day for the health care of the children in this region," Beeler said. "Our shared goal is to ensure that every child has access to comprehensive health services, the finest physicians and the latest, most advanced therapies developed through medical research. This has been a vision of CHRISTUS's Santa Rosa Children's Hospital for some time now, and this action makes it a reality."

"The children are the winners," said Cigarra. "As a pediatric and transplant surgeon, I have clearly seen the need to offer a full range of premier pediatric services at one site. Physicians from our department of pediatrics, in conjunction with the private sector pediatricians and pediatric sub-specialists, are committed to providing the care and the medical research that will make this academic children's hospital recognized locally, nationally and internationally."

"We are excited about the enhanced affiliation of our enhanced affiliation agreement with CHRISTUS Santa Rosa Health Care in our joint commitment to continuing to work with the University Health System in the development of this new academic children's hospital."



Since the inception of the medical school, physicians from the department of pediatrics and pediatric medical and surgical sub-specialists at the Health Science Center have provided care and resident teaching at CHRISTUS Santa Rosa Children's Hospital. A full array of pediatric services will be established at CHRISTUS Santa Rosa Children's Hospital to expand the care currently available, which includes the 24 pediatric specialty clinics at the David Christopher Gobbury Center for Children and Families.

"To complement our existing high level of pediatric care, we will now have even greater access to medical research affecting children's clinical trials, and education. Our private sector physicians will also enjoy these same advantages," Beeler added. "We will continue looking for ways to involve private sector and academic physicians, as well as the hospitals in this area, as we build the best possible model for the children of this region."

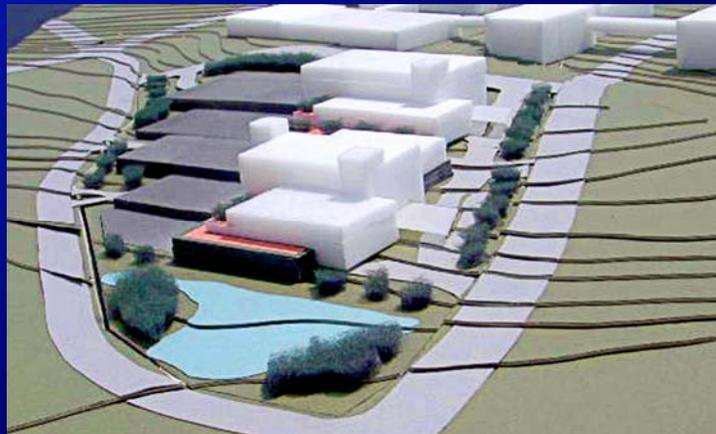
Academic children's hospital set for San Antonio

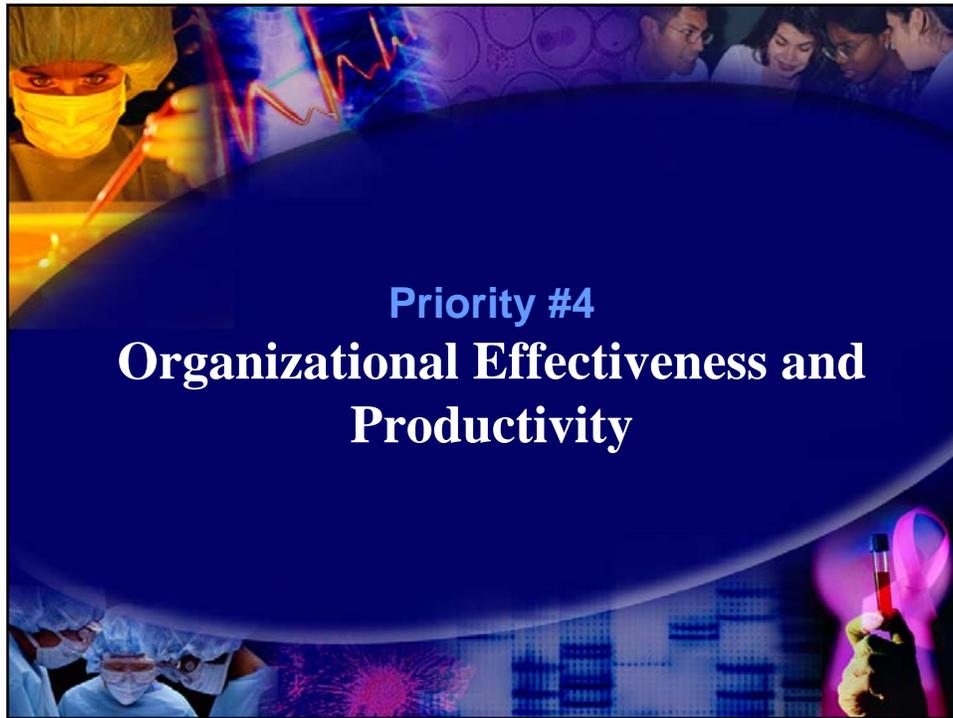
Christus also mentioned the advantage of being part of an academic children's hospital in recruiting the nation's finest physician-scientists who focus on children's health issues. "This expanded partnership will make San Antonio an even more attractive place for the very finest physicians and healthcare providers," Cigarra added. "The establishment of this academic children's hospital now sets the stage to provide comprehensive pediatric programs at this distinguished hospital. The Health Science Center will also continue our commitment to provide outstanding care for any child admitted at University Hospital, with whom we have a long-standing, strong and valued relationship."

Physicians and administrators from both organizations, academic children's hospital winners are the

**Develop the Medical Arts and
Research Center (MARC)**

**Architect selected
& Planning underway**





Priority #4
Organizational Effectiveness and
Productivity

Information Technology

- PeopleSoft
- Institutional Review Board
- HIPAA compliant
- Social security numbers

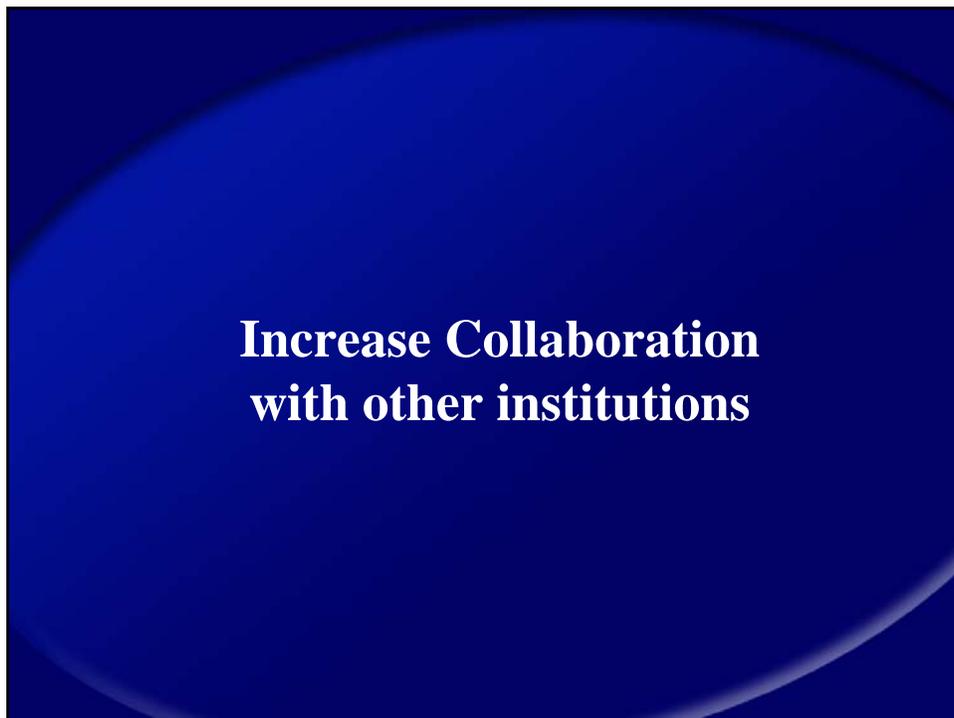
Increase Fundraising

UTHSCSA Fundraising Success





Priority #5
Community and Institutional
Relations



Increase Collaboration
with other institutions

San Antonio Life Sciences Institute (SALSI)



- Noninvasive Tissue-Based Biosensors
- Development of Assisted Reproduction, Transgenesis & Stem Cell Technologies
- Center for Health and Health Care Disparities Infrastructure Core

Texas A&M International University (TAMIU) agreement

- School of Medicine
- Dental School





Progress in Laredo Campus

- Respiratory therapy
- MedEd
- PA
- Dental



Regional Academic Health Center (RAHC) Medical Education Division



Graduated 2nd class of medical
students trained at RAHC

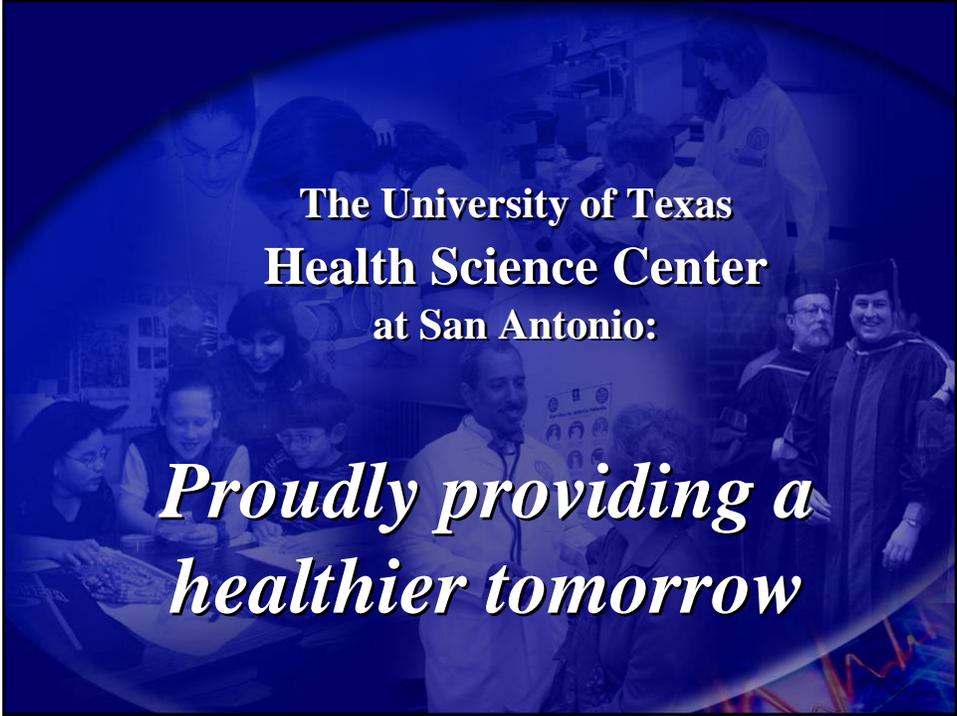


Graduated 2nd class of RAHC residents



2004 National Award for
Museum and Library Services





**The University of Texas
Health Science Center
at San Antonio:**

*Proudly providing a
healthier tomorrow*



TABLE OF CONTENTS FOR FACILITIES PLANNING AND CONSTRUCTION COMMITTEE

Committee Meeting: 8/10/2005

Board Meeting: 8/11/2005
U. T. Medical Branch - Galveston

John W. Barnhill, Jr., Chairman
H. Scott Caven, Jr.
Rita C. Clements
Robert A. Estrada
Woody L. Hunt

	Committee Meeting	Board Meeting	Page
Convene	<i>4:45 p.m.</i> <i>Chairman Barnhill</i>		
1. U. T. System: Consideration of designation of the U. T. Austin Garrison Hall Renovations project and Renovations to Disch-Falk Field project as architecturally or historically significant	<i>4:45 p.m.</i> Action <i>Mr. Dixon</i>	Not on Agenda	84
2. U. T. Austin: Darrell K Royal - Texas Memorial Stadium- Fire and Life Safety/Improvement Planning - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	<i>5:00 p.m.</i> Action <i>Mr. Dixon</i>	Action	84
3. U. T. El Paso: Parking Garage - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	<i>5:05 p.m.</i> Action <i>Mr. Dixon</i>	Action	86
4. U. T. Pan American: Wellness and Recreation Sports Center - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	<i>5:10 p.m.</i> Action <i>Mr. Dixon</i>	Action	88
5. U. T. San Antonio: Thermal Energy Plant No. 2/Garage - Request for approval of design development for the Parking Garage portion of the project	<i>5:15 p.m.</i> Action <i>Mr. Dixon</i>	Action	90

	Committee Meeting	Board Meeting	Page
6. U. T. Southwestern Medical Center - Dallas: Hazardous Waste Handling Facility - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; and appropriation of funds and authorization of expenditure	<i>5:25 p.m.</i> Action <i>Mr. Dixon</i>	Action	92
7. U. T. M. D. Anderson Cancer Center: Faculty Center Tower - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	<i>5:30 p.m.</i> Action <i>Mr. Dixon</i>	Action	93
8. U. T. Tyler: Honorific naming of the Engineering, Sciences and Technology Building as the William R. "Bill" Ratliff Engineering and Science Complex	<i>5:35 p.m.</i> Action <i>Mr. Dixon</i>	Action	95
9. U. T. Tyler: Honorific naming of the Student Dormitory and Academic Excellence Center as the Mr. and Mrs. Joseph Z. Ornelas Residence Hall	<i>5:40 p.m.</i> Action <i>Mr. Dixon</i>	Action	96
Adjourn	<i>5:45 p.m.</i>		

1. **U. T. System: Consideration of designation of the U. T. Austin Garrison Hall Renovations project and Renovations to Disch-Falk Field project as architecturally or historically significant**

RECOMMENDATION

It is recommended that the Committee review the following projects scheduled for architectural selection for possible designation as architecturally or historically significant pursuant to the Regents' *Rules and Regulations*, Series 80302:

U. T. Austin

Garrison Hall Renovations

Proposed Project Cost: \$10,400,000

Anticipated Delivery Method: Design/Build

Renovations to Disch-Falk Field

Proposed Project Cost: \$18,000,000

Anticipated Delivery Method: Construction Manager at Risk

2. **U. T. Austin: Darrell K Royal - Texas Memorial Stadium Fire and Life Safety/Improvement Planning - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. System Board of Regents approve the recommendations for the Darrell K Royal - Texas Memorial Stadium Fire and Life Safety/Improvement Planning project at The University of Texas at Austin as follows:

Project Number: 102-081

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: August 2006

Total Project Cost: Source Current
Revenue Financing System Bond Proceeds \$10,000,000

- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and
 - U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$10,000,000.

BACKGROUND INFORMATION

Debt Service

The \$10,000,000 debt service in Revenue Financing System debt will be repaid from Stadium Club seating revenues. Total annual debt service on the project is estimated at \$707,162. Debt service coverage on the project is expected to be at least 2.39 times.

Previous Board Action

On December 10, 2004, the project was included in the CIP with a preliminary project cost of \$5,000,000 with funding from Auxiliary Enterprise Balances. With the adoption of the FY 2006-2011 CIP (see Item 4 on Page 6 of Meeting of the Board), the preliminary project cost is proposed to be increased to \$10,000,000 with funding from Revenue Financing System Bond Proceeds.

Project Description

This project began as a comprehensive feasibility and planning study of the Darrell K Royal - Texas Memorial Stadium. The full scope of options and associated costs for improving the fire and life safety of the stadium has been recommended to define current code and infrastructure needs.

The Stage I - Belmont Hall Renovation portion of the Stadium Fire and Life Safety/Improvement Planning project will address several life safety concerns within the existing Belmont Hall, and provide waterproofing and structural repairs and building system upgrades. The project will also include renovation and expansion of the ninth floor Centennial Room, the addition of fixed seating at that level, and renovations to the eighth floor Press Box area to accommodate additional working press.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

3. **U. T. El Paso: Parking Garage - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Natalicio that the U. T. System Board of Regents approve the recommendations for the Parking Garage project at The University of Texas at El Paso as set forth on Page 87.

Project Number: 201-184

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: December 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>
	Revenue Financing System Bond Proceeds	\$23,500,000

- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and
 - U. T. El Paso, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$23,500,000.

BACKGROUND INFORMATION

Debt Service

The \$23,500,000 debt service in Revenue Financing System debt will be repaid from net parking revenues. Total annual debt service on the project is estimated at \$1,707,249. Debt service coverage on the project is expected to achieve 2.00 times by FY 2007.

Previous Board Actions

On August 7, 2003, the Parking Garage ID#, P-4 project was included in the CIP with a preliminary project cost of \$25,000,000 and the New Bookstore project was included in the CIP with a preliminary project cost of \$4,950,000. On August 12, 2004, the projects were combined with a new preliminary project cost of \$29,950,000 with funding of \$25,000,000 from Revenue Financing System Bond Proceeds and \$4,950,000 from Auxiliary Enterprise Balances. With the adoption of the FY 2006-2011 CIP (see Item 4 on Page 6 of Meeting of the Board), the project is proposed to be separated and a new preliminary project cost of \$23,500,000 with funding from Revenue Financing System Bond Proceeds is proposed to be approved.

Project Description

The parking garage will contain approximately 2,040 parking spaces in a six-story facility to be located north of the intersection of Sun Bowl Drive and University Avenue.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

4. **U. T. Pan American: Wellness and Recreation Sports Center - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Cárdenas that the U. T. System Board of Regents approve the recommendations for the Wellness and Recreation Sports Center project at The University of Texas - Pan American as set forth on Page 89.

Project Number: 901-204

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: July 2007

Total Project Cost:	<u>Source</u>	<u>Current</u>
	Revenue Financing System Bond Proceeds	\$26,000,000

- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and
 - U. T. Pan American, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$26,000,000.

BACKGROUND INFORMATION

Debt Service

The \$26,000,000 debt service in Revenue Financing System debt will be repaid from net revenues generated from recreation fees. Total annual debt service on the project is estimated at \$1,888,872. Debt service coverage on the project is expected to be at least 1.29 times and average 1.48 times over the first four years of operation.

Previous Board Action

On August 7, 2003, the project was included in the CIP with a preliminary project cost of \$18,000,000 with funding of \$7,000,000 from Designated Tuition and \$11,000,000 from Revenue Financing System Bond Proceeds. With the adoption of the FY 2006-2011 CIP (see Item 4 on Page 6 of Meeting of the Board), the project cost is proposed to be increased, the funding source changed to Revenue Financing System Bond Proceeds, and the project name redesignated.

Project Description

The campus has a growing recreational sports program, a program that is currently operating without dedicated indoor facilities. The facility is designed to promote the development of a healthier, more active student lifestyle that will benefit the campus population and enhance the student life experience on the U. T. Pan American campus.

The new facility will consist of 95,900 gross square feet to include a two-court gymnasium, a multipurpose gymnasium, four racquetball courts, a large weight and fitness area, cardio theater rooms, a climbing wall, men's and women's lockers, elevated indoor running track, two aerobics rooms, meeting and lounge areas, multiple student lounge and seating areas, and supporting office space. In addition to the indoor areas, outdoor recreation areas consisting of a recreational pool and outdoor lounge area, two sand volleyball courts, two basketball courts, and two tennis courts will be provided.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

5. **U. T. San Antonio: Thermal Energy Plant No. 2/Garage - Request for approval of design development for the Parking Garage portion of the project**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T.

System Board of Regents approve the design development plans for the Parking Garage portion of the Thermal Energy Plant No. 2 project at The University of Texas at San Antonio as follows:

Project Number: 401-177

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: April 2006

Total Project Cost: Source Current
Revenue Financing System Bond Proceeds \$25,900,000

BACKGROUND INFORMATION

Previous Board Actions

On August 7, 2003, the project was included in the Capital Improvement Program (CIP) with a preliminary project cost of \$8,000,000 with funding from Designated Tuition. On November 5, 2004, the Board approved design development plans and increased the total project cost to \$16,500,000 with funding from Revenue Financing System Bond Proceeds. On May 12, 2005, the Board approved the increase of the total project cost to \$25,900,000 to include the parking garage and appropriated the additional funding of \$9,400,000 from Revenue Financing System Bond Proceeds.

Project Description

The scope of the Thermal Energy Plant No. 2 project will be increased with the addition of a four-level, 482 space parking garage that will include two elevators, an elevator lobby, and support spaces. The Thermal Energy Plant will support the University Center Expansion, Phase III; Biotechnology, Sciences and Engineering, Phase II; and the Recreation and Wellness Center, Phase II.

6. **U. T. Southwestern Medical Center - Dallas: Hazardous Waste Handling Facility - Request for approval of design development, approval of evaluation of alternative energy economic feasibility, and appropriation of funds and authorization of expenditure**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Wildenthal that the U. T. System Board of Regents approve the recommendations for the Hazardous Waste Handling Facility at The University of Texas Southwestern Medical Center at Dallas as follows:

Project Number: 303-121

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: May 2006

Total Project Cost:	<u>Source</u> Interest on Local Funds	<u>Current</u> \$2,800,000
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- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility; and
- c. appropriate funds and authorize expenditure of funds.

BACKGROUND INFORMATION

Previous Board Action

On August 6, 2003, the project was included in the CIP with a preliminary project cost of \$4,500,000 with funding from Interest on Local Funds. With the adoption of the FY 2006-2011 CIP (see Item 4 on Page 6 of Meeting of the Board), the preliminary project cost is proposed to be reduced to \$2,800,000 with funding from Interest on Local Funds.

Project Description

The project consists of new construction of approximately 11,000 gross square feet of building area and associated site improvements to provide adequate space for the operating requirements of the Environmental Health and Safety Department with regard to receipt and distribution of radioactive materials and controlled substances.

Radioactive, chemical, and biomedical waste materials are strictly regulated by the Texas Natural Resource Conservation Commission and the Texas Department of Health, Bureau of Radiation Control. As a part of ongoing educational, research, and clinical activities, regulated wastes must be collected and removed from functional areas of the general facilities. In addition, the growth of the campus is creating more regulated waste materials that have to be managed.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

7. U. T. M. D. Anderson Cancer Center: Faculty Center Tower - Request for approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Mendelsohn that the U. T. System Board of Regents approve the recommendations for the Faculty Center Tower project at The University of Texas M. D. Anderson Cancer Center as follows:

Project Number: 000-000

Institutionally Managed: Yes No

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: December 2007

Total Project Cost:	<u>Source</u>	<u>Current</u>
	Revenue Financing System Bond Proceeds	\$ 80,000,000
	Hospital Revenues	\$ 65,000,000
		<u>\$145,000,000</u>

- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and
 - U. T. M. D. Anderson Cancer Center, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$80,000,000.

BACKGROUND INFORMATION

Debt Service

The \$80,000,000 debt service in Revenue Financing System debt will be repaid from net revenues generated by patient care. Total debt service coverage at U. T. M. D. Anderson Cancer Center is expected to average 3.90 over the next six years.

Previous Board Action

On August 6, 2003, the project was included in the CIP as the Faculty Center Two project with a preliminary project cost of \$73,000,000 with funding of \$50,000,000 from Revenue Financing System Bond Proceeds and \$23,000,000 from Hospital Revenues. With adoption of the FY 2006-2011 CIP (see Item 4 on Page 6 of Meeting of the Board), the total project cost is proposed to be increased to \$145,000,000 with funding of \$80,000,000 from Revenue Financing System Bond Proceeds and \$65,000,000 from Hospital Revenues.

Project Description

The proposed administrative office building will contain approximately 730,000 gross square feet over 21 floors developed to meet the needs of faculty and staff. Currently, the offices are located on the Main Campus and are taking up valuable research and clinical space. Additionally, the proposed building will support the growing needs for office space required to maintain the current institutional growth rate and reduce lease expenses.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

8. U. T. Tyler: Honorific naming of the Engineering, Sciences and Technology Building as the William R. "Bill" Ratliff Engineering and Science Complex

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for External Relations, and President Mabry that the U. T. System Board of Regents approve the naming of the Engineering, Sciences and Technology Building at The University of Texas at Tyler as the William R. "Bill" Ratliff Engineering and Science Complex.

BACKGROUND INFORMATION

The Engineering, Sciences and Technology Building project consists of approximately 148,885 gross square feet of new research and teaching space for the College of Engineering and Computer Science and for the College of Arts and Sciences. The U. T. System Board of Regents approved design development plans in May 2003 and substantial completion is expected in February 2006.

U. T. Tyler is requesting that the new building be named in honor of former Lieutenant Governor William R. "Bill" Ratliff. Throughout Governor Ratliff's 18 years of elected public service, he was committed to improving education across the State of Texas. He especially recognized the need for greater access to higher education in East Texas and the potential for U. T. Tyler to become a significant university that would have an important impact on the lives of East Texans and the future wealth of the region.

In particular, Governor Ratliff recognized the need in East Texas for a public university engineering program. He championed that cause in the Texas Legislature which in 1995 authorized the establishment of an engineering school at U. T. Tyler. Governor Ratliff played a key role in the Legislature to assure that operating funds were provided in the college's start-up years and that funds were appropriated to begin construction of a new, state-of-the-art building to house the College of Engineering and Computer Science as well as several of the science departments.

In December 2002, Governor Ratliff donated his political papers and memorabilia to U. T. Tyler. The new complex will house the papers from his 15 years in the Senate as well as the papers from the two-year term he served as Lieutenant Governor.

The proposed honorific naming of the Engineering, Sciences and Technology Building at U. T. Tyler as the William R. "Bill" Ratliff Engineering and Science Complex to recognize the distinguished service and contributions of Governor Ratliff to Texas, to the field of engineering, and to U. T. Tyler, is consistent with the Regents' *Rules and Regulations*, Series 80307, relating to honorific naming of facilities.

9. **U. T. Tyler: Honorific naming of the Student Dormitory and Academic Excellence Center as the Mr. and Mrs. Joseph Z. Ornelas Residence Hall**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for External Relations, and President Mabry that the U. T. System Board of Regents approve the naming of the Student Dormitory and Academic Excellence Center project at The University of Texas at Tyler as the Mr. and Mrs. Joseph Z. Ornelas Residence Hall.

BACKGROUND INFORMATION

The residence hall project is the first dormitory constructed at U. T. Tyler. A five-story building with approximately 77,000 gross square feet will provide 268 beds for students and include lounge areas, laundry facilities, and offices for dormitory staff. The U. T. System Board of Regents approved the design development plans in November 2003 and substantial completion is expected in July 2006.

Mr. and Mrs. Joseph Z. Ornelas are longtime friends and supporters of U. T. Tyler. Mrs. Ornelas previously contributed \$6.4 million toward the building of the Louise Herrington Patriot Center as well as other gifts toward a professorship, a chair, and scholarship funds. The U. T. System Board of Regents named the Patriot Center in honor of Louise (Herrington) Ornelas in August 2003.

In October 2004, Mrs. Ornelas anonymously contributed \$3 million toward the construction of the Residence Hall. She is a member of the U. T. Tyler Development Board, the President's Associates, Friends of the Arts, and the Cowan Center's Advisory Board. Mr. and Mrs. Ornelas were recognized as U. T. Tyler's Patriots of the Year in 2000 in recognition of their strong commitment to education and support of the university.

The proposed naming of the Student Dormitory and Academic Excellence Center project at U. T. Tyler to recognize the distinguished contributions to U. T. Tyler is consistent with the Regents' *Rules and Regulations*, Series 80307, relating to honorific naming of facilities.



**TABLE OF CONTENTS
FOR
STUDENT, FACULTY, AND STAFF CAMPUS LIFE
COMMITTEE**

Committee Meeting: 8/11/2005
U. T. Medical Branch - Galveston

Judith L. Craven, M.D., Chairman
John W. Barnhill, Jr.
Rita C. Clements
Robert A. Estrada
Woody L. Hunt
*Ms. Sandee Goertzen, Chair, Employee Advisory Council**
*Dr. James Bartlett, Chair, Faculty Advisory Council**
*Mr. Josh Warren, Chair, Student Advisory Council**

	Committee Meeting	Board Meeting	Page
Convene	9:00 a.m. <i>Chairman Craven</i>		
1. U. T. Medical Branch - Galveston: Overview of the institution	9:00 Report <i>President Stobo</i>	Not on Agenda	98
2. U. T. System Board of Regents: Overview and discussion of undergraduate student housing	9:20 Discussion <i>Dr. Sullivan</i> <i>Ms. Rincón</i> <i>Mr. Dixon</i> <i>Ms. Remmers-Roeber and</i> <i>Mr. Wylvan</i> <i>Parker, U. T. Arlington</i> <i>President Daniel</i>	Not on Agenda	99
3. U. T. System: Update on Faculty Advisory Council and Student Advisory Council recommendations	9:40 Report <i>Dr. Sullivan</i>	Not on Agenda	100
Adjourn	9:55 a.m.		

*New Chairs below may attend:
Ms. Ann Tate, Chair, Employee Advisory Council
Dr. Barry Norling, Chair-Elect, Faculty Advisory Council
Mr. Brent Chaney, Chair-Elect, Student Advisory Council

1. **U. T. Medical Branch - Galveston: Overview of the institution**

REPORT

President Stobo will provide an overview of U. T. Medical Branch - Galveston. A PowerPoint presentation is attached Pages 98.1 - 98.8.

This is the third in a series of campus life presentations that will be made at the Student, Faculty, and Staff Campus Life Committee meetings.

The University of Texas System
Board of Regents
Student, Faculty and Staff
Campus Life Committee

John D. Stobo, M.D.
President
U. T. Medical Branch - Galveston

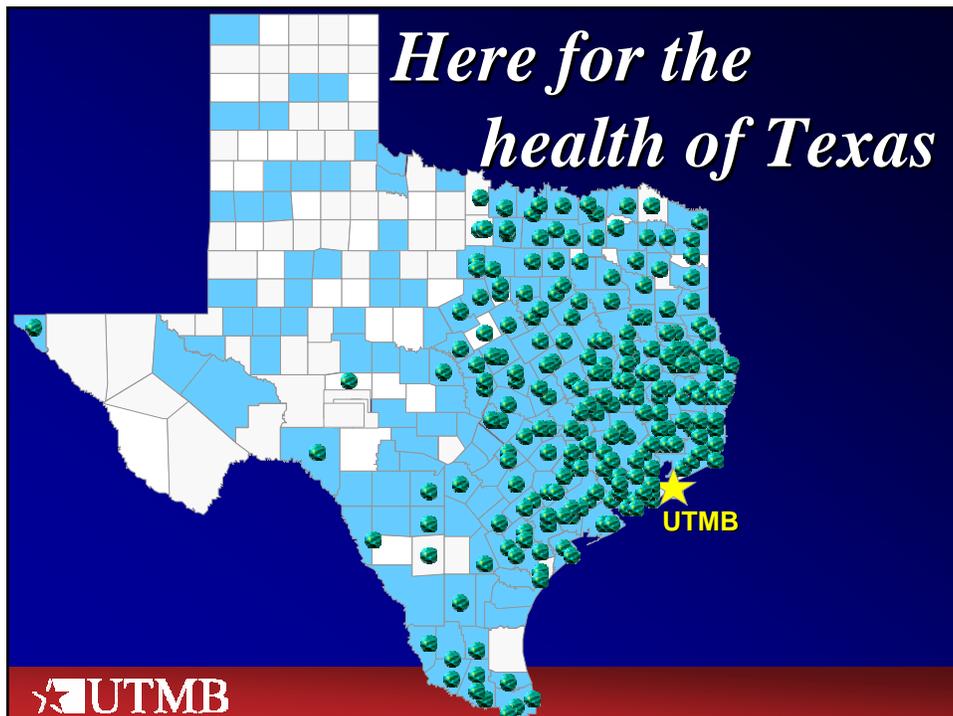


August 11, 2005



What is UTMB ?

- 4 schools, 6 hospitals, 2 institutes
- 2,600 students, 1,000 faculty, 12,292 employees
- An academic health center with a soul



Investing in Our Greatest Asset



The UTMB Productive Community

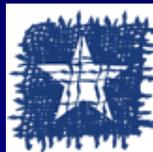




UTMB Commit to Fit Initiative

- Summer Sneaker Shuffle
- Fitness Fridays
- Health Squad
- Commit to Quit
- Personal Best Newsletter
- iCommit Tracking
- Walking Club

The collage includes: a group of people exercising in a gym; the 'Commit to Fit' logo; a group of people walking on a campus path; a group of people in a meeting; a group of people on a staircase; and a pair of sneakers.



Common Threads

A celebration of diversity at UTMB



 UTMB

Work/School Program



 UTMB

Organizational Development, Training and Recognition

Programs Including:

7 Habits of Highly Effective People

Emotional Intelligence

Values in Professionalism

Customer Service

Communication Skills

Teamwork Skills

Leadership Development

Galveston College, Medical Spanish Language
Education

Computer Based Training (65 courses)

Tuition Reimbursement

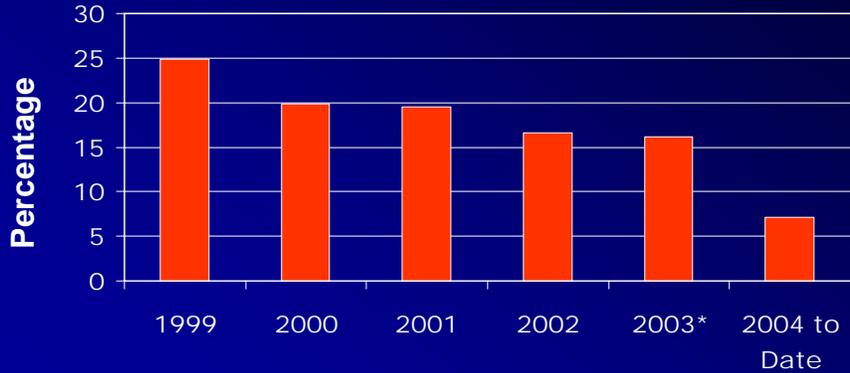


Professionalism



Employee Turnover

FY99 – FY04
as of 2/29/2004

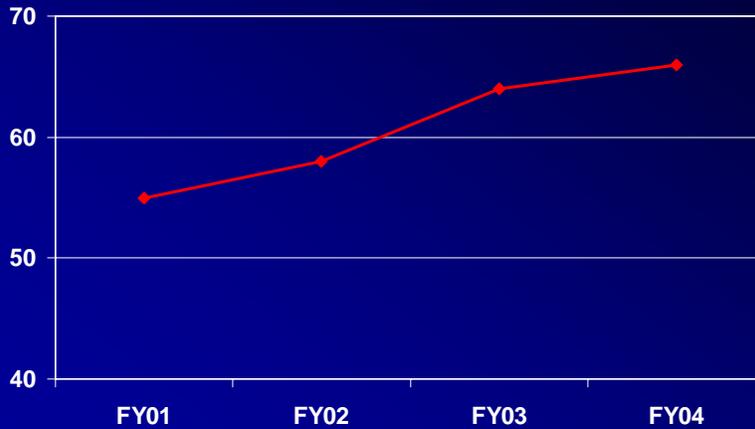


•Includes RIF Employees



Employee Satisfaction

Percent Favorable You Count! Responses



Voted a Best Place to Work
2002 / 2003 / 2004
Houston Business Journal



Magnet Recognition



2. **U. T. System Board of Regents: Overview and discussion of undergraduate student housing**

PURPOSE

Executive Vice Chancellor Sullivan will lead a discussion regarding undergraduate student housing focusing on programmatic initiatives, specific housing data, and building enhancements.

Dr. Sullivan will be joined by Dr. David Daniel, President, U. T. Dallas; Ms. Roberta Rincón, Research and Policy Analyst, U. T. System Administration; Mr. Dave Dixon, Interim Associate Vice Chancellor for Facilities Planning and Construction, U. T. System; Mr. Wylvan Parker, Director of Housing, U. T. Arlington; and Dr. Dawn Remmers-Roeber, Director of Student Success Programs, U. T. Arlington, for a PowerPoint presentation set forth on Pages 99.1 - 99.23.

BACKGROUND INFORMATION

Research shows that students who live on campus have a better retention and graduation rate than those who commute. A review of historical information showing student growth versus construction will identify challenges faced in defining housing types, the benefits of various types of housing, and associated costs.



THE UNIVERSITY OF TEXAS SYSTEM

Student Housing Overview

August 11, 2005



Benefits of Living on Campus

- **National Study of Living-Learning Programs (2004)**
 - Higher campus involvement
 - Greater interaction with faculty
 - More time studying and attending classes



Benefits of Living on Campus, cont.

- **Indiana State University (2002)**
 - Residential learning communities:
0.16 points higher first semester GPA
 - First-year residence halls:
0.11 points higher first semester GPA
 - First-year residence halls increased first year retention by 3.5% in two years

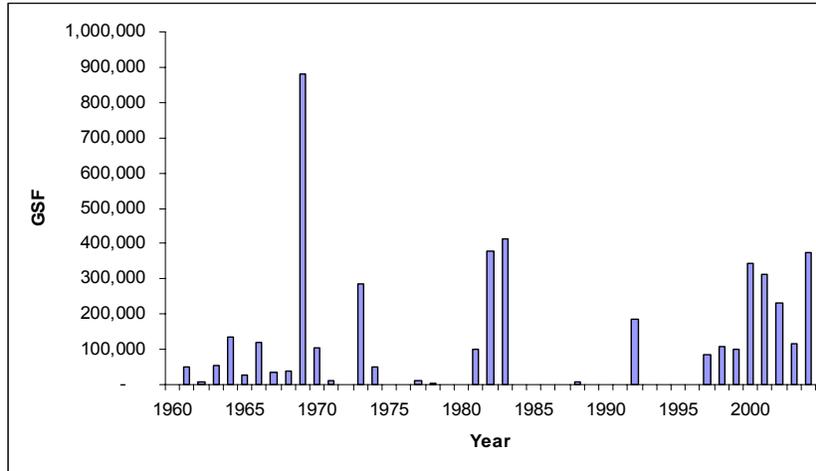


Compacts: Housing Goals

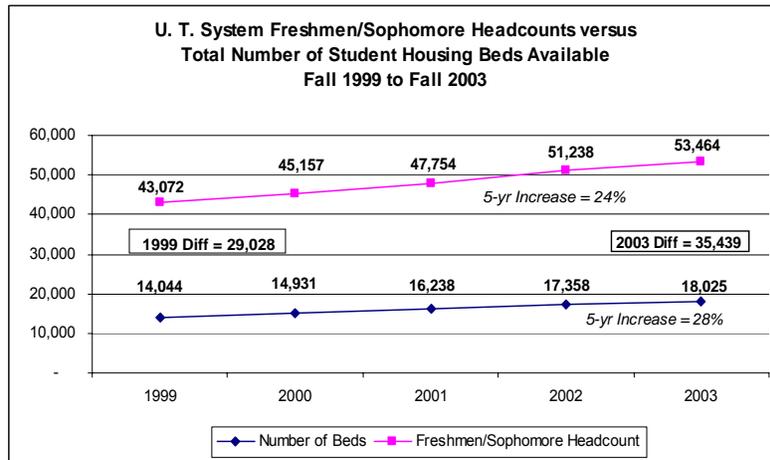
- **Improve recruitment**
- **Improve retention and enhance campus life**
- **Expand housing options**



U. T. System Housing Construction Over Time

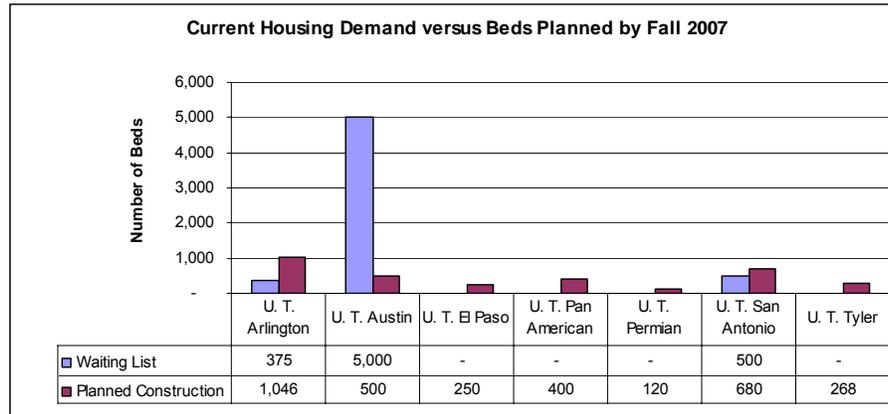


U. T. System Beds versus Headcount





Supply versus Demand



Marketing Trends

- **Room layout**
 - Greater demand for privacy and personal space
 - More beds share private bath areas
 - More beds have private vanity area with a private shower
 - Private beds often are part of suites with common living area and kitchenette
 - Housing Complex amenities often include study halls, computer labs, lounge space and outdoor recreation such as basketball/volleyball courts
 - Food service is typically handled separately at a central dining facility on campus



Marketing Trends

- **Safety issues**
 - Fire sprinklers in all new facilities, retrofitting of existing facilities
 - Security card access in newer facilities, retrofitting of existing facilities
 - Control access to immediate housing site



Housing Types

- **50 Year Institutional Dorm**
 - (example: Almetris Duren Residence Hall at U. T. Austin)
- **Hybrid Dorm**
 - (example: Kalpana Chawla Hall at U. T. Arlington)
- **Apartment Style**
 - (examples: Chaparral Village at U. T. San Antonio and Student Housing Phase II at U. T. Permian Basin)



Housing Types: 50 Year Institutional

- **50 Year Institutional Dorm:**
 - Almetris Duren Residence Hall
 - San Jacinto Hall
 - 1,454 Beds (since 2000)
 - Average Cost per Bed = \$67,303 (in 2005 dollars)



Housing Types: 50 Year Institutional



Almetris Duren Residence Hall at U. T. Austin



Housing Types: 50 Year Institutional



Almetris Duren Residence Hall – First Floor Plan



Housing Types: 50 Year Institutional

- **50 Year Institutional Dorm Attributes:**
 - Intricate masonry exterior
 - Clay tile roof system
 - Concrete frame w/ metal stud wall framing
 - Institutional quality centralized HVAC systems
 - High quality and more durable materials
 - Greater level of architectural articulation
 - High Level of site development fitting an urban environment



Housing Types: Hybrid

- **Hybrid Dorm:**
 - Kalpana Chawla Hall at U. T. Arlington
 - Arlington Hall
 - Student Dormitory & Academic Excellence Center at U. T. Tyler
 - 1,218 Beds (since 2000)
 - Average Cost per Bed = \$48,508 (in 2005 dollars)



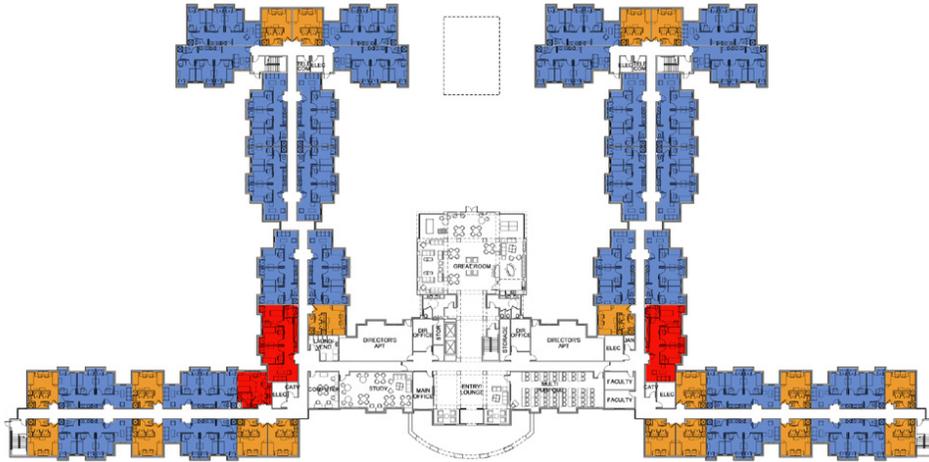
Housing Types: Hybrid



Kalpana Chawla Hall at U. T. Arlington



Housing Types: Hybrid



Kalpana Chawla Hall – First Floor Plan



Housing Types: Hybrid

- **Hybrid Dorm Attributes:**
 - Simple masonry exterior
 - Composition tile or metal roof systems
 - Wood frame w/ partial light steel/concrete framing
 - Durable but less robust HVAC systems
 - Durable but less robust finish materials



Housing Types: Apartment Style

- **Apartment Style:**
 - Miner Village at U. T. El Paso
 - University Village West Apartments at U. T. Arlington
 - Chaparral Village at U. T. San Antonio
 - Student Housing – Phase II at U. T. Permian Basin
 - 5,013 Beds (since 2000)
 - Average Cost per Bed = \$36,132 (in 2005 dollars)



Housing Types: Apartment Style



Student Housing Phase II at U. T. Permian Basin



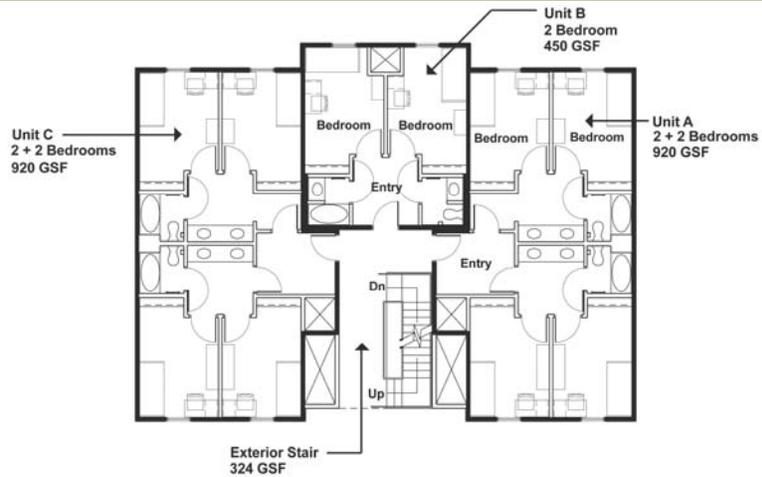
Housing Types: Apartment Style



Chaparral Village at U. T. San Antonio



Housing Types: Apartment Style



Chaparral Village at U. T. San Antonio - Floor Plan of Bldg Units



Housing Types: Apartment Style

- **Apartment Attributes:**
 - Wood frame
 - Masonry and wood exterior
 - Composition tile roof system
 - Multi-family/Residential quality HVAC
 - Multi-family/Residential quality finish materials
 - Budget conscious materials



Comparing: Housing Types

- **50 Year Institutional Dorm**
 - 1,454 Beds
 - \$67,303/Bed
- **Hybrid Dorm**
 - 1,218 Beds
 - \$48,508/Bed
- **Apartment Style**
 - 5,013 Beds
 - \$36,132/Bed



Factors Affecting Campus Housing

- **Level of demand on campus**
- **Household income of typical student on campus**
- **Growth in enrollment of campus**
- **Amount (if any) of existing beds with no outstanding debt**
- **Marketability of existing inventory of beds**
- **Off-campus market competition**



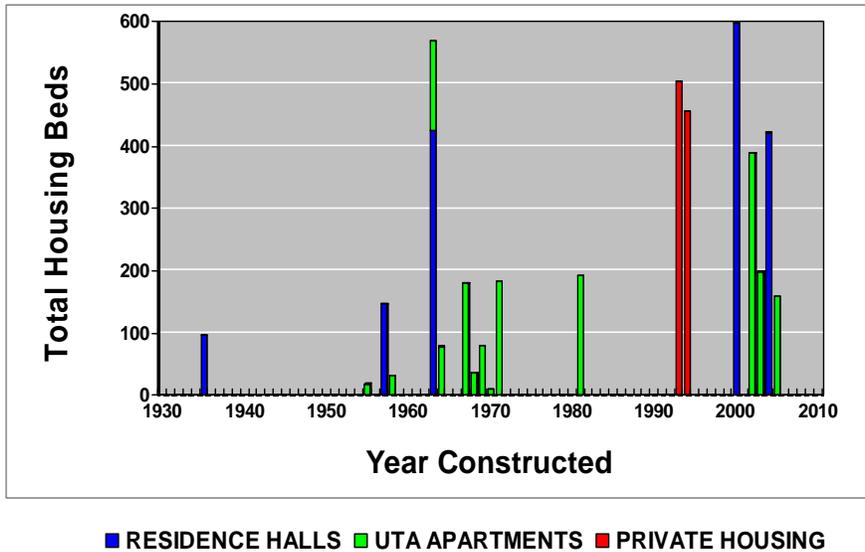
The University of Texas at Arlington



Our Changing Residential Community



UTA Housing Construction Dates



UTA Housing Options



Arlington Hall - 2000



Arbor Oaks - 2002

(cont.)

UTA Housing Options (cont.)



Timber Brook - 2002



Meadow Run Phase 1 - 2003

(cont.)

UTA Housing Options (cont.)

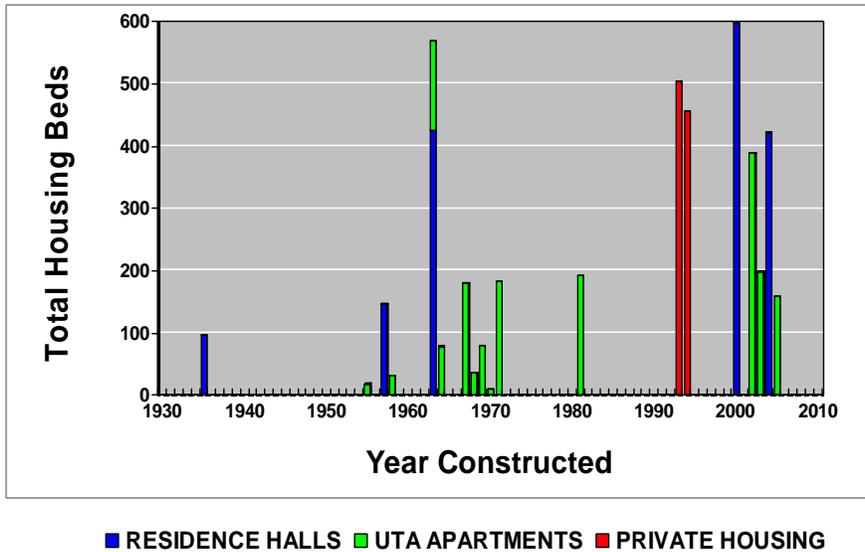


KC Hall - 2004

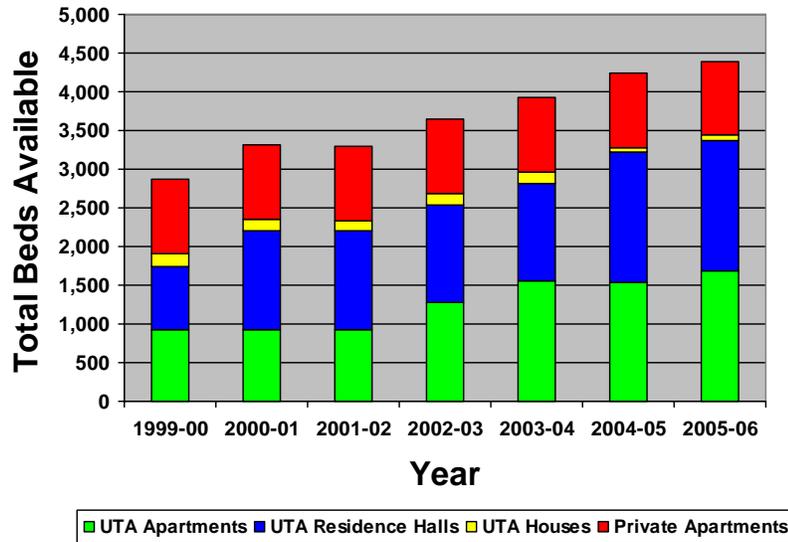


Meadow Run Phase 2 - 2005

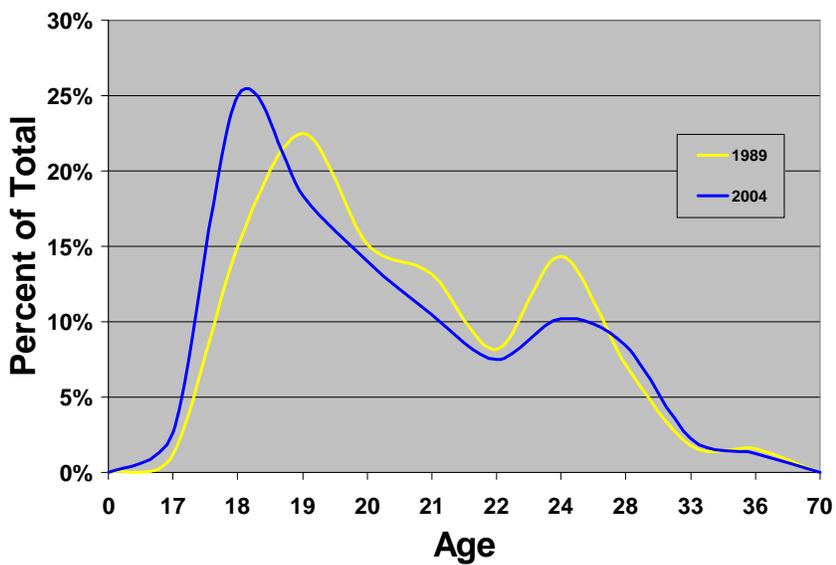
UTA Housing Construction Dates



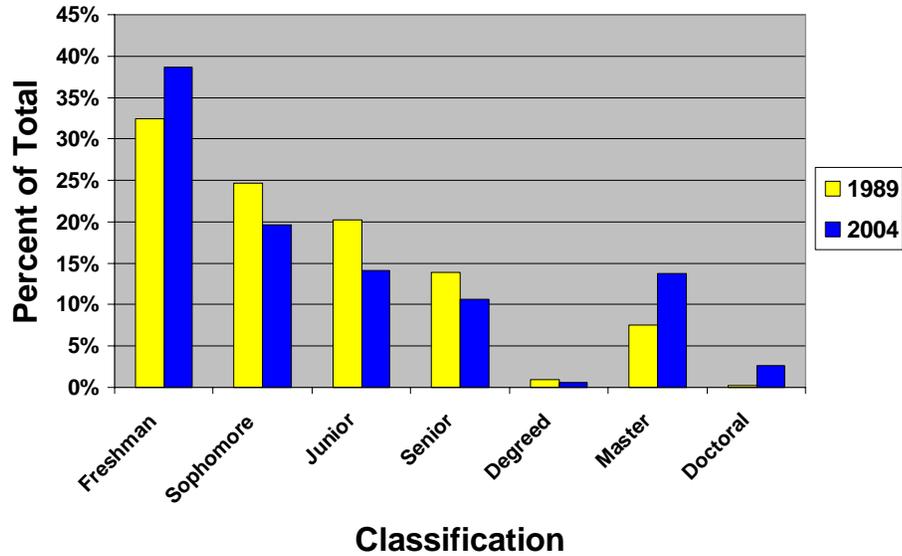
UTA Student Housing Beds Available



Age of Campus Residents



Classification of Campus Residents



Changing Amenities

- Private Rooms
- High-Speed Internet
- Cable TV
- Phone
- Washer & Dryer



Changes Impacting Campus Support Services



Increased support required from:

- Campus Police
- Judicial Affairs
- Health Center
- Counseling

Changes Impacting Community Support Services

Increased need for:

- Local Grocery Store
- Retail Development
- Public Transportation



Changes Impacting Academic Environment



MAV
SCHOLARS

LEARNING
communities

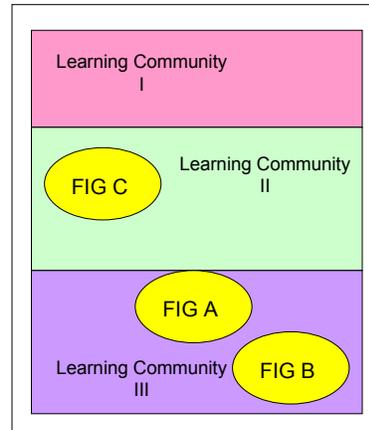
Maverick Scholars
Residential
Freshman Interest Groups
(FIGs)



Imagine the Possibilities!

Student Success Programs

Kalpana Chawla Hall: UTA's Living-Learning Center



Types of Living-Learning Communities

General Learning Communities

- ★ Major and special interest themes
- ★ Assigned room space based on learning community preferences
- ★ Hall programming builds group sense of community
- ★ Facilitated study groups

(cont.)

Types of Living-Learning Communities

(cont.)

Freshman Interest Groups

- ★ Placed in small groups with students of similar major/interest
- ★ Live within a learning community with a Peer Counselor
- ★ Co-enroll in at least three courses
- ★ College adjustment course
- ★ Faculty mentor
- ★ Social and academic programming in the hall

Why Learning Communities?

Develop the “whole” student

Academic needs:
engaged learning, support

★ **Personal needs:**
“traditional” experience,
community, adjustment

★ **Social Needs:** Friends
with similar interests



Residential FIGs Fall 2004 Summary

FIG student Fall-Spr Retention	94%
Non-FIG student Fall-Spr Retention	88%
FIG student Mean GPA	2.97
Freshman Mean GPA 2004	2.64

- ★ Tracking student learning outcomes, retention, course performance, graduation rates of FIG students

3. **U. T. System: Update on Faculty Advisory Council and Student Advisory Council recommendations**

REPORT

Executive Vice Chancellor Sullivan will provide an update on responses to the recommendations presented to the Board by the Faculty Advisory Council on February 10, 2005 and the Student Advisory Council on May 12, 2005.

The Faculty Advisory Council presented the following recommendations for consideration:

- a. bridge funding for "fundable" but non-funded research grants (as presented by Dr. Bartlett),
- b. creation of a System-wide database of research background and research interests of faculty and graduate students (as presented by Dr. Nelsen), and
- c. issues concerning nursing education (as presented by Dr. Verklan).

The Student Advisory Council presented the following recommendations for consideration:

- a. encourage each institution to continue to promote to its community a code of honor or a code of ethical conduct; and if a code of honor or ethical conduct does not presently exist, to develop and advertise to its community a code similar to that which was announced by President Faulkner at U. T. Austin in April 2004,
- b. conduct a study on the impact of new tuition increases on students who do not qualify for financial aid,
- c. require all U. T. System institutions to make information readily available pertaining to mental health to include services related to psychiatric issues, substance abuse, sexual harassment, rape crisis, women's health, suicide, and sexually transmitted diseases, and
- d. ensure the presence of an administrative position at each institution designed to deal with diversity issues and adequate processes for maintaining diversity at each institution.